PROPOSALS TO AMEND THE ORGANIZATIONAL STRUCTURE OF THE TENNESSEE VALLEY AUTHORITY

(100-53)

HEARINGS

BEFORE THE

SUBCOMMITTEE ON WATER RESOURCES

OF THE

COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

DECEMBER 8 AND 9, 1987

Printed for the use of the
Committee on Public Works and Transportation

U.S. GOVERNMENT PRINTING OFFICE
86-433 WASHINGTON : 1988

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H641-4

COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

JAMES J. HOWARD, New Jersey, *Chairman*

GLENN M. ANDERSON, California
ROBERT A. ROE, New Jersey
NORMAN Y. MINETA, California
JAMES L. OBERSTAR, Minnesota
HENRY J. NOWAK, New York
NICK JOE RAHALL II, West Virginia
DOUGLAS APPLEGATE, Ohio
RON de LUGO, Virgin Islands
GUS SAVAGE, Illinois
FOFO I.F. SUNIA, American Samoa
DOUGLAS H. BOSCO, California
ROBERT A. BORSKI, Pennsylvania
JOE KOLTER, Pennsylvania
TIM VALENTINE, North Carolina
EDOLPHUS TOWNS, New York
WILLIAM O. LIPINSKI, Illinois
J. ROY ROWLAND, Georgia
ROBERT E. WISE, Jr., West Virginia
KENNETH J. GRAY, Illinois
PETER J. VISCLOSKY, Indiana
JAMES A. TRAFICANT, Jr., Ohio
JIM CHAPMAN, Texas
H. MARTIN LANCASTER, North Carolina
LOUISE M. SLAUGHTER, New York
JOHN LEWIS, Georgia
PETER A. DeFAZIO, Oregon
BENJAMIN L. CARDIN, Maryland
BILL GRANT, Florida
DAVID E. SKAGGS, Colorado
JIMMY HAYES, Louisiana
CARL C. PERKINS, Kentucky

JOHN PAUL HAMMERSCHMIDT, Arkansas
BUD SHUSTER, Pennsylvania
ARLAN STANGELAND, Minnesota
NEWT GINGRICH, Georgia
WILLIAM F. CLINGER, Jr., Pennsylvania
GUY MOLINARI, New York
E. CLAY SHAW, Jr., Florida
BOB McEWEN, Ohio
THOMAS E. PETRI, Wisconsin
DON SUNDQUIST, Tennessee
NANCY L. JOHNSON, Connecticut
RON PACKARD, California
SHERWOOD BOEHLERT, New York
DEAN A. GALLO, New Jersey
HELEN DELICH BENTLEY, Maryland
JIM LIGHTFOOT, Iowa
DENNIS HASTERT, Illinois
JAMES M. INHOFE, Oklahoma
CASS BALLENGER, North Carolina
FRED UPTON, Michigan

Subcommittee on Water Resources

HENRY J. NOWAK, New York, *Chairman*

ROBERT A. ROE, New Jersey
BENJAMIN L. CARDIN, Maryland
JIMMY HAYES, Louisiana
RON de LUGO, Virgin Islands
ROBERT A. BORSKI, Pennsylvania
TIM VALENTINE, North Carolina
ROBERT E. WISE, Jr., West Virginia
PETER J. VISCLOSKY, Indiana
JAMES A. TRAFICANT, Jr., Ohio
JIM CHAPMAN, Texas
LOUISE M. SLAUGHTER, New York
JOHN LEWIS, Georgia
PETER A. DeFAZIO, Oregon
BILL GRANT, Florida
DAVID E. SKAGGS, Colorado
GLENN M. ANDERSON, California
JAMES L. OBERSTAR, Minnesota
DOUGLAS APPLEGATE, Ohio
DOUGLAS H. BOSCO, California
GUS SAVAGE, Illinois
JAMES J. HOWARD, New Jersey
(ex officio)

ARLAN STANGELAND, Minnesota
GUY MOLINARI, New York
E. CLAY SHAW, Jr., Florida
THOMAS E. PETRI, Wisconsin
DON SUNDQUIST, Tennessee
NANCY L. JOHNSON, Connecticut
RON PACKARD, California
DEAN A. GALLO, New Jersey
HELEN DELICH BENTLEY, Maryland
JIM LIGHTFOOT, Iowa
DENNIS HASTERT, Illinois
JAMES M. INHOFE, Oklahoma
FRED UPTON, Michigan
JOHN PAUL HAMMERSCHMIDT, Arkansas
(ex officio)

CONTENTS

Proceedings of: Page
- December 8, 1988 1
- December 9, 1988 139

TESTIMONY

Baliles, Hon. Gerald L., Governor of the Commonwealth of Virginia, accompanied by Ms. Elizabeth B. Lacy, chair, Virginia State Corporation Commission 154, 162
Cooper, Hon. Jim, a Representative in Congress from Tennessee 7
Dean, Charles H., Chairman, Board of Directors, Tennessee Valley Authority, accompanied by John B. Waters, Member, Board of Directors; William F. Willis, General Manager; and Edward S. Christenbury, General Counsel 71
Flippo, Hon. Ronnie G., a Representative in Congress from Alabama 7
Freeman, Richard M., former member, Tennessee Valley Authority Board of Directors 127
Lloyd, Hon. Marilyn, a Representative in Congress from Tennessee 7
Miller, Hon. James C., III, Director, Office of Management and Budget 143
Radin, Alex, president, Radin & Associates 154, 162
Whitten, Hon. Jamie L., a Representative in Congress from Mississippi 161

SUBMISSIONS FOR THE RECORD

Baliles, Hon. Gerald L., Governor of the Commonwealth of Virginia, statement 179
Cooper, Hon. Jim, a Representative in Congress from Tennessee, statement 71
Dean, Charles H., Jr., Chairman, Tennessee Valley Authority:
- Statement 115
- Information on Federal pay cap's impact on TVA's ability to pay competitive salaries to key power system managers, March 6, 1987, report 86
- Information of electric rates paid by TVA's residential and industrial customers 105
- Information of TVA's bond indebtedness 106
- Information on projected startup dates for TVA's nuclear units 113

Flippo, Hon. Ronnie G., a Representative in Congress from Alabama:
- Statement 39
- Information to accompany H.R. 2025 48
- TVA Board composition and duties 55
- Discussion paper—Summary page: The Tennessee Valley Authority Board: Why Three Full-Time Members 58
- State of Alabama resolution endorsing the improvements of the management structure for the Tennessee Valley Authority 69

Freeman, Richard M., former member, Tennessee Valley Authority Board of Directors, statement 133
Hammerschmidt, Hon. John Paul, a Representative in Congress from Arkansas, statement 2
Lloyd, Hon. Marilyn, a Representative in Congress from Tennessee, statement 28
Miller, Hon. James C., Director, Office of Management and Budget, statement 151
Radin, Alex, president, Radin & Associates, Inc.:
- Statement 189
- Report and recommendations on a legislative proposal to restructure the Tennessee Valley Authority 203

Stangeland, Hon. Arlan, a Representative in Congress from Minnesota, statement 141

Page
Sundquist, Hon. Don, a Representative in Congress from Tennessee, statement 5
Waters, John B., director, Tennessee Valley Authority, statement 117
Willis, William F., General Manager, Tennessee Valley Authority, statement 121

ADDITIONS TO THE RECORD

Shelby, Hon. Richard C., U.S. Senator from Alabama, statement 317
Smith, Frederick W., chairman and CEO, Federal Express, letter 322

PROPOSALS TO AMEND THE ORGANIZATIONAL STRUCTURE OF THE TENNESSEE VALLEY AUTHORITY

TUESDAY, DECEMBER 8, 1987

House of Representatives,
Subcommittee on Water Resources,
Committee on Public Works and Transportation,
Washington, DC.

The subcommittee met, pursuant to call, at 1:55 p.m., in room 2167, Rayburn House Office Building, Hon. Henry J. Nowak (chairman of the subcommittee) presiding.

Mr. Nowak. The subcommittee will come to order.

Today the Subcommittee on Water Resources begins hearings on the Tennessee Valley Authority. This afternoon we will receive testimony from U.S. Representatives, the TVA and public witnesses. Tomorrow morning we will hear and receive testimony from the Office of Management and Budget and representatives of the Southern States Energy Board.

The Tennessee Valley Authority was created as a corporate body by an act of Congress in 1933 in the interest of the national defense and for agricultural and industrial development, and to improve navigation in the Tennessee River and to control flood waters in the Tennessee River and Mississippi River Basins.

Its original assets consisted of an idle munitions complex at Muscle Shoals, Alabama, and the power facilities at Wilson Dam and a small coal-fired steam plant, both built by the War Department.

Today, if TVA were a private corporation, it would rank among the 15 largest companies in America, based on its assets.

The topic for our hearings is the organizational structure of TVA. When TVA was created, control was vested in a three-man board of directors appointed by the President with the advice and consent of the Senate.

The board is responsible for policy as well as the daily management of the corporation. This structure has been criticized as contributing to flawed policy decisions and ineffective management because of an inherent lack of accountability in the combined policy/management structure.

Other commentators have defended the current board structure and indicated that changing the board will not correct past management mistakes, or errors in predicting actual future electrical demand.

Proposals have been made to amend the Tennessee Valley Authority Act to change TVA's management structure. The proposals would replace the current board with a nine-member, part-time board, similar in concept to that of private corporations.

Regional characteristics of TVA would have to be reflected in selecting nominees to sit on the board. The restructured board would hire a full-time chief executive officer who would implement board policies in the daily operation of TVA.

A key element of the restructuring proposals would be some elimination of the statutory pay cap. The current restriction on TVA's ability to compensate top management is often cited as a major factor in their inability to attract top management candidates.

Before we hear from our first witness, I would like to yield to the Ranking Minority Member, Arlan Stangeland, for any remarks he wishes to make.

Mr. STANGELAND. Thank you, Mr. Chairman.

First of all, I would like to ask unanimous consent that a statement by the Ranking Republican of the full Committee, John Paul Hammerschmidt, be made part of the record at this point.

Mr. NOWAK. Without objection, so ordered.

[The statement referred to follows:]

STATEMENT OF HON. JOHN PAUL HAMMERSCHMIDT

Mr. Chairman, I want to begin by thanking you for holding these hearings on the structure and organization of the TVA. This is an important area of the committee's jurisdiction and deserves the thoughtful review that these hearings will bring.

Also, I want to thank the distinguished Members of the House who represent the TVA region and who will be presenting testimony today. Their commitment to ensuring the viability of the TVA is demonstrated by their presence at these hearings. In particular, I want to thank Congressman Ronnie Flippo for his hard work and persistence in calling for our review and for developing legislation to restructure the agency.

In addition, I want to express my appreciation to Congressman Don Sundquist who is the only member of this subcommittee—in fact of this committee—who represents the TVA region. He has shown much interest and dedication to these hearings and to TVA as a whole. I know that I and the other members of this panel will be looking to him for leadership on further legislative action.

Again, Mr. Chairman, I commend you for calling these sessions and look forward to the testimony we will receive.

Mr. STANGELAND. Thank you, Mr. Chairman.

I want to commend you for holding hearings today and tomorrow on proposed changes for the structure and management of TVA with testimony from our distinguished colleague, Congressman Flippo and Congresswoman Lloyd and Congressman Cooper, as well as from a Member of the subcommittee, Congressman Don Sundquist, and other officials and experts. We can begin to make an important review of the corporation's mission, structure, and possible areas for organization reform.

The Water Resources Subcommittee has not reviewed the 1933 Act or the specific management needs of TVA for quite some time.

The issue is an important one, however. Concerns are growing. The Act has been amended 19 times since 1933 while close to 60 proposals have been introduced in Congress just in the last eight years.

Considering the pressing needs and challenges of the 21st century, our hearing is a timely and crucial one. We will hear testimony about proposals to change the size and function of the board, to establish a CEO, to change hiring procedures, to adjust prohibitive salary caps, to establish an independent inspector general, and to make a variety of other possible management reforms.

A common theme running through many of these proposals includes increased accountability and efficiency, greater flexibility, and closer alignment to the corporate model of management.

Experts claim TVA should have a part-time board of directors focusing on policy and a full-time CEO focusing on day-to-day management and that statutory pay caps be lifted to attract and retain the brightest and most capable employees.

Our goal is to explore changes that make TVA more responsive to changing times and changing needs. Accordingly, we will focus on provisions in H.R. 2025 which Congressman Flippo introduced last April and proposed changes sought by Don Sundquist.

We will also look at reports and recommendations by the Southern States Energy Board, TVA, and private consultants and distinguished members of TVA's Congressional Caucus.

Mr. Chairman, I would be remiss if I did not pay tribute to Congressman Sundquist, who represents part of the TVA region and is one of this subcommittee's senior Members.

In my recollection, he has been addressing and discussing TVA since he first became a Member of this committee and I think as with previous issues, Congressman Sundquist has taken a great deal of interest in these latest proposals.

I appreciate the fact that he and Congressman Flippo are working together to develop a bipartisan, revised bill.

I appreciate his efforts and their efforts and look forward to their continued leadership and guidance.

With that in mind, Mr. Chairman, since he has a direct interest in this legislation and in the TVA itself, I will relinquish my ranking seat and allow Congressman Sundquist to sit here for the balance of these hearings.

Thank you for the time.

Mr. **Nowak**. Thank you very much.

Congressman Sundquist, would you take the chair, the minority part of the chair, and you may certainly be recognized for a statement.

Mr. **Sundquist**. Thank you, Mr. Chairman, for holding these hearings and for your cooperation. I thank also my colleague from Minnesota for his kind words and leadership.

As a representative of the ratepayers in the Tennessee Valley, I am very pleased to be a Member of the subcommittee which today begins the formal legislative process of reviewing comprehensive management reform proposals for the Tennessee Valley Authority.

I appreciate the strong interest of this committee in the effectiveness of TVA—just one of many areas of this committee's jurisdiction.

I believe this hearing is historic. For years, there has been talk of TVA management reform, but no serious effort underway in Congress to achieve it. A series of major events has led us to this critical juncture.

The first event, of course, was the introduction of Representative Flippo's bill for major structural change. Through his many years of effort to increase accountability at TVA, including his years as Chairman of our TVA Caucus, Congressman Flippo has set the standard for congressional leadership on tough TVA issues.

The essential elements of Congressman Flippo's approach for improving TVA's efficiency have withstood the test of time. Indeed, I would say that Congressman Flippo was perhaps ahead of his time in the introduction of his bill.

Personally, during most of my five years in Congress, I did not believe that fundamental TVA restructuring was necessary. Like me, though, I think other members of our delegation are beginning to see the logic of long-term changes that can restore TVA's mission of leadership and innovation.

The second major event which has moved this process of reform along was the report of the Advisory Committee on TVA to the Southern States Energy Board.

To my knowledge, this was the most exhaustive review ever conducted of TVA's management dilemma, conducted by a very distinguished panel. It was especially noteworthy to find that the recommendations of the SSEB closely mirrored the Flippo legislation.

Other forces have also combined to create momentum for TVA reorganization. The recommendations of Alex Radin, a friend of TVA for decades, to the Tennessee Valley Public Power Association, are a good example.

Also, the endorsement for reform by the leader of our Tennessee Valley Congressional Caucus, Representative Lloyd, has added credibility and leadership to this effort.

I believe that the time has arrived for Congress to legislatively address these proposals for reform. I intend to continue to work with the leadership of this committee to mark up and take to the Floor a TVA reform bill in the coming months.

I agree wholeheartedly with the fundamental principles of the Flippo legislation. The TVA Board should be expanded to seven or nine members. It should function as a part-time policymaking body styled after other successful corporate utility boards.

Day-to-day management of the agency should be delegated to a strong chief executive officer. Also, TVA ought to have the flexibility to compete for extremely skilled, top managers—particularly in the nuclear area.

Ultimately, TVA ratepayers will reap considerable savings from having first-class managers with line responsibilities, who are competitively paid.

I am 100 percent committed to these major principles for TVA management reform. I should note, though, that I will work to make some changes in the bill ultimately considered by this committee.

For example, I agree that the majority of members on the expanded board should reside in the Valley. But I disagree with the provision in the Flippo bill that would fix a formula for the allocation of these positions among our seven Valley States.

I disagree, also, with the incentive bonus system which is a current part of the Flippo bill. I would seek transition language in any TVA reform bill which would not preclude Marvin Runyon from becoming the chief executive officer. And I would seek highly restrictive language about who should be eligible for release from the pay cap.

Based on current compensation surveys, I believe a case could be made for releasing two or three nuclear managers from the Executive Level I pay scale.

In any case, I don't think anyone other than the CEO and the top nuclear managers should be eligible to make more than Executive Level I. I am anxious to hear the views of the Office of Management and Budget about how this can be accomplished.

These modest differences of opinion, I am sure, can all be worked out. We are here today, though, not to develop a consensus on specifics—but to study the options available for restoring TVA to its position as the great model for utilities around the world.

None of us who support TVA structural overhaul would suggest that our legislative proposals are a panacea for curing all of TVA's ills. Ultimately, of course, the success or failure of the system depends upon the quality of people who lead it.

All the structural reform in the world won't help if we are unsuccessful in recruiting the best and the brightest to the positions of authority in the agency.

Mr. Chairman, I don't lightly consider the issue of whether we ought to open the TVA Act. There are few issues of more importance to our region than restoring and preserving a strong TVA, and none of us who support TVA would stand for any detrimental tampering with the Act.

There is always some degree of risk in proceeding with reform, but I am convinced our Valley delegation is strong enough to block any legislative proposal which isn't in the interest of Tennessee Valley ratepayers.

In several ways, I think TVA may now be turning the corner on several of its recent difficulties. Progress has unquestionably been made to get our nuclear reactors back on line.

TVA's Inspector General has helped make the agency more efficient. And Marvin Runyon will be a welcome addition to the current board of directors. None of these changes, though, will correct the deficiencies which I believe are inherent in TVA's current management structure.

For decades, as John Kennedy once said, all around the world the initials TVA stood for progress. The question before us today is how to assure that 50 years hence, TVA will again set the standard by which all other utilities and public agencies are judged.

Thank you, Mr. Chairman.

Mr. NOWAK. Thank you very much for your statement and let me assure all the other Members that any opening statements that they wish to insert in the record will be accepted, without objection, and I certainly want to thank them for the courtesies of letting our witnesses go on and I might at this time mention that we have an agreement from Mr. Grant of Florida, Mr. Valentine from North Carolina, and Mrs. Slaughter from New York, as well as Dean Gallo and Mr. Hastert from Illinois.

[Mr. Sundquist's statement follows:]

STATEMENT OF HON. DON SUNDQUIST, A REPRESENTATIVE IN CONGRESS FROM TENNESSEE

As a representative of ratepayers in the Tennessee Valley, I'm very pleased to be a member of the subcommittee which today begins the formal legislative process of reviewing comprehensive management reform proposals for the Tennessee Valley Authority. I appreciate the strong interest of Chairman Nowak and our ranking Republican, Rep. Stangeland, in the effectiveness of TVA—just one of many areas of this committee's jurisdiction.

I believe this hearing is historic. For years, there has been talk of TVA management reform, but no serious effort underway in Congress to achieve it. A series of major events has led us to this critical juncture.

The first event, of course, was the introduction of Representative Flippo's bill for major structural change. Through his many years of effort to increase accountability at TVA, including his years as chairman of our TVA Caucus, Congressman Flippo has set the standard for congressional leadership on tough TVA issues. The essential elements of Congressman Flippo's approach for improving TVA's efficiency have withstood the test of time. Indeed, I would say that Congressman Flippo was perhaps ahead of his time in the introduction of his bill. Personally, during most of my five years in Congress, I did not believe that fundamental TVA restructuring was necessary. Like me, though, I think other members of our delegation are beginning to see the logic of long-term changes that can restore TVA's mission of leadership and innovation.

The second major event which has moved this process of reform along was the report of the Advisory Committee on TVA to the Southern States Energy Board. To my knowledge, this was the most exhaustive review ever conducted of TVA's management dilemma, conducted by a very distinguished panel. It was especially noteworthy to find that the recommendations of the SSEB closely mirrored the Flippo legislation.

Other forces have also combined to create momentum for TVA reorganization. The recommendations of Alex Radin, a friend of TVA for decades, to the Tennessee Valley Public Power Association are a good example. Also, the endorsement for reform by the leader of our Tennessee Valley Congressional Caucus, Representative Lloyd, has added credibility and leadership to this effort.

I believe that the time has arrived for Congress to legislatively address these proposals for reform. I intend to continue to work with the leadership of this committee to mark up and take to the floor a TVA reform bill in the coming months.

I agree wholeheartedly with the fundamental principles of the Flippo legislation. The TVA Board should be expanded to seven or nine members. It should function as a part-time policymaking body styled after other successful corporate utility boards. Day-to-day management of the agency should be delegated to a strong chief executive officer. Also, TVA ought to have the flexibility to compete for extremely skilled, top managers—particularly in the nuclear area. Ultimately, TVA ratepayers will reap considerable savings from having first-class managers with line responsibilities, who are competitively paid.

I am 100-percent committed to these major principles for TVA management reform. I should note, though, that I will work to make some changes in the bill ultimately considered by this committee. For example, I agree that the majority of members on the expanded board should reside in the Valley. But I disagree with the provision in the Flippo bill that would fix a formula for the allocation of this position among our seven Valley states.

I disagree, also, with the incentive bonus system which is a current part of the Flippo bill. I would seek transition language in any TVA reform bill which would not preclude Marvin Runyon from becoming the chief executive officer. And I would seek highly restrictive language about who should be eligible for release from the pay cap. Based on current compensation surveys, I believe a case could be made for releasing two or three nuclear managers from the Executive Level I pay scale. In any case, I don't think anyone other than the CEO and the top nuclear managers should be eligible to make more than Executive Level I. I'm anxious to hear the views of the Office of Management and Budget about how this can be accomplished.

These modest differences of opinion, I'm sure, can all be worked out. We are here today, though, not to develop a consensus on speciics—but to study the options available for restoring TVA to its position as the great model for utilities around the world. None of us who support TVA structural overhaul would suggest that our legislative proposals are a panacea for curing all of TVA's ills. Ultimately, of course, the success or failure of the system depends upon the quality of people who lead it. All the structural reform in the world won't help if we are unsuccessful in recruiting the best and the brightest to the positions of authority in the agency.

Mr. Chairman, I don't lightly consider the issue of whether we ought to open the TVA Act. There are few issues of more importance to our region than restoring and preserving a strong TVA, and none of us who support TVA would stand for any detrimental tampering with the Act. I'm convinced that our Valley delegation is strong enough to block any legislative proposal which isn't in the interest of Tennessee Valley ratepayers.

In several ways, I think TVA may now be turning the corner on several of its recent difficulties. Progress has unquestionably been made to get our nuclar reactors back on line. TVA's Inspector General has helped make the agency more efficient. And Marvin Runyon will be a welcome addition to the current Board of Directors. None of these changes, though, will correct the deficiencies which I believe are inherent in TVA's current management structure.

For decades, as John Kennedy once said, all around the world the initials "TVA" stood for progress. The question before us today is how to assure that 50 years hence, TVA will again set the standard by which all other utilities and public agencies are judged.

Mr. NOWAK. We want to thank you for that. Now, we will call forward a panel of our colleagues, Representative Marilyn Lloyd of Tennessee; Representative Ronnie Flippo of Alabama; and Representative Jim Cooper of Tennessee.

We welcome you back to the committee as a former member who has talked to me over the years about this problem and I welcome the opportunity as chairman of this subcommittee to hold this hearing. I know the importance of this topic, not only to those residing in the TVA States, but really to the whole Nation, and we want to welcome Marilyn Lloyd back once again.

TESTIMONY OF HON. MARILYN LLOYD, A REPRESENTATIVE IN CONGRESS FROM TENNESSEE; HON. RONNIE G. FLIPPO, A REPRESENTATIVE IN CONGRESS FROM ALABAMA; AND HON. JIM COOPER, A REPRESENTATIVE IN CONGRESS FROM TENNESSEE

Mrs. LLOYD. Thank you, Mr. Chairman.

I want to thank you for having this hearing today and allowing me to speak on a topic of great importance to me. I was a Member of this committee and it was a great experience.

I am now Chair of the informal Tennessee Valley Congressional Caucus and I also represent a district that I suppose has the largest percentage of TVA employees and assets of any district in the Tennessee Valley area.

When you add to these factors my personal belief in TVA's mission, accomplishment and future, you will certainly understand my commitment to TVA. But before I get on with the issue at hand, I would like to comment on another related matter.

Mr. Chairman, as you know, the Senate Committee on Environment and Public Works will soon hold the confirmation hearing of Marvin Runyon as a new Director of TVA.

He is a very strong able manager and we all have high hopes for his future. I believe that we are blessed to have such a positive and determined new leader at TVA, but I want to make sure we don't heap too much responsibility on his shoulders because he will inherit problems not of his making TVA will not self-correct.

He is going to need every tool available to him to make the agency the yardstick or the benchmark of the industry that it once was.

As stated, in September of this year, Virginia Governor Gerald Baliles briefed the Caucus on the Southern States Energy Board's Advisory Committee on the Tennessee Valley Authority report.

In October, the Caucus held a hearing to listen to testimony from a variety of interested people concerning the Flippo bill as well as the SSEB report and some of their comments were most enlightening, but there were two points observed in the hearing.

First, there was not a consensus on the reorganization proposals. There was some support and some that did not support it wholeheartedly. But the second point was much more interesting.

All of those who testified wholeheartedly supported increasing the management salaries at TVA.

I find this significant because it came from the people that will have to pay the bill for these increased salaries.

The subject of TVA reorganization has received increasing support in the past few months, but Congressman Flippo has been advocating these changes in the structure for a long time.

As Congressman Sundquist stated, he is a man with great foresight who was ahead of his time, but we congratulate him.

Up to this time, I have not supported Mr. Flippo's bill because of my strong belief that it would be very dangerous to open up the TVA Act during the crisis of the nuclear program.

It is no secret that we have many Members not supportive of not only the TVA nuclear program, but of any nuclear program.

I believe that I can speak for the entire Tennessee Valley delegation when I say our highest priority is getting those nuclear plants safely back on line.

Our ratepayers are suffering an enormous burden. Every day that those plants are out of operation is costing us more and more.

Let's look at what was one root cause of the present dilemma—we have a management crisis of monstrous proportions and what we want to determine is how we can prevent this from happening again.

The TVA management has admitted to this crisis. The status quo—my colleagues, the status quo is no longer acceptable. I am convinced that business as usual will be the ruination of the TVA, so we are at the point to decide where we go from here.

TVA's management structure was created with the Act in 1933, and we know that a lot of things have changed since then. I believe that it is time for TVA to come closer to the late 20th century if it is going to survive in the next century.

There is still the question of advisability of opening up the Act now. The plants are still down, TVA is very vulnerable, and we hear many arguments against opening up the Act now.

First of all, there is the subject of vulnerability. I don't see that the vulnerability will be eliminated until completion of the recovery program and this could take several years.

I think management reorganization could go a long way toward promoting more confidence in the agency from the public and NRC points of view.

Perhaps, as some have said, we could separate policymaking from the day-to-day management without legislative direction, but as I interpret the Act, I think this would be very difficult given the language of the law.

Governor Baliles and indeed the entire Southern States panel were convinced that the time to change TVA is now. We can't continue with business as usual and be prepared for the 21st century.

Right now we do have a window of opportunity with the support behind the changes, and this is the time that we must act, while we do have this remarkable momentum.

Mr. Chairman, aside from the separation of management and policymaking Mr. Flippo's bill calls for and outlines strong responsibilities for a strong chief executive officer, and I am totally committed to the belief that we desperately need this.

I make no criticism of current staff, but I think that these top positions were evolved through a flawed system, and I think it is Congress' responsibility to correct these flaws.

For these reasons, as well as others, Mr. Chairman, I now place my full support behind Mr. Flippo's bill.

I would like to see a few changes made, but they aren't enough to affect my overall support. I congratulate my colleague for his sight and determination and before this committee pledge my wholehearted support for his bill.

My original concern regarding the bill is that, perhaps it doesn't go far enough in its revamping if we are going to open up the TVA Act.

Specifically, I feel that the changes we make should address the Federal pay cap. For this reason, I am crafting my own legislation which I believe will complement his.

I am preparing a bill to alleviate a significant problem at TVA, the Federal pay cap. The current compensation limit imposed on TVA for its employees has resulted in a critical lack of imaginative talent at the top levels of management particularly in our nuclear programs.

The ratepayers of the Tennessee Valley are currently supporting a small group of contract managers who earn considerably more than our TVA employees.

This is a real morale problem, as well, within the TVA.

According to a GAO report, TVA is paying the managers' companies $113,000 to $250,000 annually for the loan of these key technical people, and I am convinced that TVA would save a minimum of $1 million a year simply if they are allowed to pay the prevailing market price for their key personnel.

The one issue that seems to be unitedly supported by the Congressional delegation, the TVA-related groups such as the Tennessee Valley Public Power Association, the Tennessee Valley Industrial Council, and even TVA itself is this pay cap issue, Mr. Chairman.

As you stated, TVA ranks as the 15th largest corporation in the United States. It is one of the largest utilities, and yet, its salary structure is well below even our smaller utilities. This discrepancy, I believe, is detrimental to the present operation and will be disastrous to its future.

Mr. Chairman, there is already a precedent for exemption from a pay cap. Title V of U.S. Code Section 3104 establishes pay positions for 517 scientific and professional provisions in Federal agencies.

Unfortunately, TVA was exempted from this action. In the 98th Congress, extension of the Federal Positions Comparability Act of 1978 was enacted providing for more competitive salaries for VA doctors. There has also been an executive order allowing higher salaries for professionals.

In my mind, the precedent has been established. My bill will offer reasonable checks and balances and will provide for Congressional oversight of this matter.

I would like to outline just a few key points. A compensation plan would be developed after an annual survey of the prevailing salaries, benefits, and incentives for similar work in private industries and utilities. The board would approve the compensation plan.

Third, no salary could be established until after the survey and the compensation plan had been available to Congress and the public for 30 days.

The general manager or CEO would determine those salaries which fall within the pay cap restrictions.

Throughout the 1980s independent reports recommended the TVA salary structure needed an overhaul. Even the Grace Commission said that the potential benefits in terms of increased efficiencies, safety improvements and management effectiveness are enormous and this gives rise to yet another argument in favor of this proposal, safety.

With our vast nuclear program, we must be assured that the people overseeing that program are the best.

Our nuclear plants will be back on line, and the people of the Tennessee Valley deserve the most talented people available to run these programs. The only way to accomplish this, Mr. Chairman, is to pay the market rate.

It is imperative that Congress fulfill its obligation to give TVA the tools it needs to operate efficiently and effectively and, most importantly, safely.

In 1986, the top salary available at the TVA was $74,500 for the general manager. By comparison, the 1986 compensation of CEO's at five of the biggest utilities in the Nation are American Electric, $563,000; Commonwealth Edison, $384,000; Consolidated Edison, $650,000; Pacific Gas and Electric, $452,000, and even in our own region, Duke Power, $402,000.

Mr. Chairman, a multi-billion dollar utility needs talent. TVA needs the bargaining power to attract that talent, and I believe that the pay cap, must receive immediate action.

I am convinced that without this element, reorganization efforts cannot succeed. We will be talking with many of you further in the next few weeks regarding my proposal for dealing with the pay cap, and I ask that you keep this issue in mind as you consider options for TVA's future.

Mr. Chairman, thank you for allowing me to testify today. I ask unanimous consent that my entire statement be made a part of the record.

Mr. NOWAK. Without objection.

We want to thank you for your statement. It is very comprehensive and I think one that has a lot of practical suggestions and we want to thank you for your quick response to these hearings.

I would like to have your colleagues testify and then if we could as a panel, ask questions.

Mrs. LLOYD. Fine. I will be happy to be here.

Thank you, Mr. Chairman.

Mr. NOWAK. Mr. Flippo represents the great State of Alabama and has been, of course, the author of the legislation that has been looked at over a number of years and has, I guess to some degree, with great patience waited for these hearings and for consideration of possible changes that not only affect his State, but all the other States and would have, I think, broad impacts on the TVA and how it operates.

We certainly are happy to have him testify before us on that legislation.

Mr. **Flippo**. Thank you, Mr. Chairman.

I appreciate very much you calling these hearings and Mr. Sundquist and the other distinguished Members of this panel—I know time is of the essence and you do not have much of it, so for you to take time to hear us, we appreciate.

Mr. Chairman, you and your predecessors on the Water Resources Subcommittee have been most attentive to the needs of TVA throughout the years.

In 1979, this committee held hearings to increase the borrowing authority of TVA. This borrowing authority supports the capital investments for the electric power program and is totally the responsibility of the users of electricity in the TVA area.

In 1982, the subcommittee conducted field hearings on TVA.

Mr. Chairman, I have a statement that I would like to have included in the record, but if the committee would permit, I would like to summarize the statement because I know you are quite busy.

Mr. **Nowak**. Without objection, your complete statement will be inserted in the record.

Mr. **Flippo**. Mr. Chairman, TVA, as you stated, was formed in 1933 as a regional development agency.

FDR and others included it in the platform, Democratic platform in 1933.

The purpose of TVA has been well established in its charter to prevent flooding, to improve navigation, to improve health by attacking the mosquitoes and malaria, to provide jobs, to improve agriculture through improved fertilizers and research and farming techniques.

When the agency was formed, the historical record of TVA clearly demonstrates that the founders of TVA, President Roosevelt, Senator Norris and others, really wanted to get the agency moving. It was born in the depths of the Depression. They didn't want the agency to have to work through the Corps of Engineers. They didn't want it to have to work through the Department of Agriculture. They wanted it to get moving in accordance with the purposes in the charter so they equipped TVA with some unique authority in the charter and that unique authority that they granted TVA was to have three full-time board members that were responsible for both policy and management and they granted them the unprecedented authority to set their own rates without any outside review of policy, operations or ratesetting.

I think you will agree that those are unique authorities granted and they were granted because the formers of TVA wanted them to move out.

They could afford to grant TVA those special authorities and still retain the accountability of TVA because at that time all of TVA's funds were both authorized and appropriated and annually reviewed by both the Executive Department and the Legislative Branches of Government. And so from 1933 to 1959, TVA operated in that fashion.

TVA funds were both authorized and appropriated and the Federal Government had total financial responsibility for the agency. And then in 1959, a major amendment was adopted to the TVA Act.

As you know, TVA was born in controversy. It continued in controversy. Public power and private power were concerned about it.

So in 1959, a compromise was reached, a wall was built around TVA, the market area was defined, public and private power came together, and all funds appropriated to TVA from 1933 to 1959 were totaled up and all Federal investments in TVA began to be repaid by TVA at that time at current interest rates.

Gosh, I wish we could have gotten the interest rates that were prevailing at that time, but at current interest rates and since 1959, TVA has been making a payment on the interest and on the principal to the Federal Government for its investments and a very significant thing happened. They said that all future TVA funds would be self-financing or non-appropriated funds.

So a very important thing took place here then. The Federal Government is no longer primarily responsible for the financial aspects of TVA, but the ratepayers. That responsibility was transferred. But it is important to note that there was not transferred with that responsibility the authority or the accountability to the people who pay the bills. That is a very important point that I hope you will appreciate.

No means were provided to make the TVA accountable to the ratepayer. The people who would pay the bills had no say in selecting those who would set the policy, who would manage the agency, who would operate the agency and to set the rates to pay for that policy. All they could do, gentlemen, was to pay the bills.

So the unique authority granted to TVA worked well for a while.

Really, to bring the historical record up to date, in 1979, this committee expanded the authority of the TVA bonds and its borrowing authority as my request and I had the pleasure of serving on this committee to make that request.

Prior to that time, many Members of TVA recommended changes in the structure, Senator Howard Baker floated a proposal to expand the TVA Board, our distinguished colleague, John Duncan of Knoxville, had proposed an expansion of the board.

Senator Ford of Kentucky had proposed an expansion of the board and then in 1979 I became very familiar with the operations of TVA and became very concerned with the operations of TVA in its present structure.

In 1981, President Reagan's transition team did a study of TVA and recommended management changes and then the Senate committee, your counterpart in the Senate, held hearings on the Reagan transition team report and they, too, concluded with a recommendation that they recognized that management changes needed to be made, structural changes needed to be made, but at that time they said we are going to appoint some new people to the TVA Board and we encourage them to make these changes and to straighten that out.

Then I introduced specific legislation in 1985 in the hopes of encouraging nationwide debate on this national asset so that we could see what was wrong with it and try to improve it for the future.

Following that, Mr. Alex Radin was employed to do a study of the Tennessee Valley Authority. He concluded that he has vast experience in this field, he studied Ontario and others and he also recommended the changes in the management structure and Governor Baliles of the Southern States Energy Board after an exhaustive study concluded with the same recommendation.

All of these people began the investigation of TVA as neutrals and came away as advocates of changes in the structure.

My legislation, Mr. Chairman, deals with the function of the TVA Board, its structural organization, and compensation.

You have to ask yourself, gentlemen, what do you want the TVA Board to do. If you want it to manage, three are too many. If you want it for policy, three are too few. So what I wanted to do was to separate policy and management and the reason I wanted a part-time, an expanded, part-time board, was that it would be broadly based and representative.

First of all with a broadly based board you could encourage a wide range of experiences and views for policy development and debate. I would envision the board as functioning as a regulatory board in the rate-setting arena, an expanded board that would be somewhat representative of the people who pay the bills.

With regard to the agency's function as a regional development authority, what could make more sense than to have on the board people from the region to be developed. I wanted it to be a part-time board, to encourage separation of policy and management, and to make service on the board more attractive to a broader group of people.

Gentleman, I would compensate the board with a $10,000 stipend, plus executive level-5 per diem, which is about $275 per day. I define it as executive level-5, so it can change as time goes on, plus for up to 60 days service.

That would give the board—I used an international firm who has done studies on boards and executives of the conferee report, as a basis for developing the compensation of the board.

After the compensation of the board, the second major issue is the compensation of the TVA employees. First let me deal with it in terms of the CEO, and then non-CEO.

For the CEO, the board would be empowered to develop a compensation package composed of a basic salary, plus incentives for personal and corporate performance, with no statutory limit. For all TVA non-CEO compensation, the CEO would develop, with approval of the board, a compensation package for all TVA employees with the same statutory limitation as applies to all other Federal employees, which is executive level-5, provided, however, that in addition to this package, the board may establish a fund of some fixed amount to make grants, awards for superior performance and meritorious acts.

If someone had to put out the candle at Brown's Ferry instead of having that fire, I would consider that a meritorious act. In addition, the board may authorize supplements for retention and recruitment problems under two conditions, when higher pay for comparable work is paid within other Federal Government agencies, then the board could pay retention and recruitment bonuses, in addition to the salaries noted above. And in the second, when there is no position within TVA that is comparable to any other Federal Government job, they could also exceed that limitation.

The final limitation is that no non-CEO-TVA employee should receive compensation in excess of executive level-1, which today would be about $99,500. The reason I take that approach is that it is very hard for me to justify paying the salary to a TVA non-CEO employee that would exceed the pay of the Secretary of Defense, or the Secretary of State, or any of the other very responsible and highly technical positions within the Federal Government.

I appreciate very much the indulgence of this committee, and I want to say that all members from TVA, Mr. Chairman, are very interested in making TVA an instrument of progress for the future. And no one has worked harder at that than Mr. Sundquist and others. And it is important to note that the TVA problems which have accrued over the years ought not to be blamed on the personalities, the capabilities nor the dedication of any past or present board member, and neither is there any likelihood that any new board member can come riding in on a white horse and rescue the corporation under the present policy management structure.

I appreciate so much the indulgence of this committee. I look forward to working with the members of this committee and all members of the TVA in having a viable TVA for the future.

Thank you very much.

Mr. Nowak. Thank you, Mr. Flippo, for your interest, and certainly the information that you have given this subcommittee over the years on this topic. You are certainly one that has come to be known as having the heart of this matter well in hand, and we look forward to working with you.

Now we will hear from the Honorable Jim Cooper, from Tennessee.

We thank him for his testimony at this point, as his district and his State too would be very, very affected if any changes are made.

Mr. Cooper. Thank you, Mr. Chairman.

I appreciate the opportunity to appear before you today. I will be very brief.

I would first like to praise the hard work that Congressman Ronnie Flippo and Governor Baliles have performed in their recommendations for restructuring the TVA. Both men are outstanding public servants whose pioneering efforts on behalf of TVA will go down in agency history. The ratepayers of the valley owe them a debt of gratitude for having tackled so difficult a subject, and having made such important recommendations.

I oppose much of what they are recommending, not so much because I disagree with their goals, but because I disagree with their timing. To me, the first priorities are fixing the broken nuclear plants, particularly Sequoyah, and confirming the new Chairman of the TVA Board, Marvin Runyon. Anything that distracts from these objectives is not helpful to the people of the valley.

I concede that it is certainly possible to discuss future restructuring alternatives without hampering any of TVA's current work. But we should always bear the more important goals in mind.

The current restructuring proposals also seem to me to be poorly timed, because the new board chairman, if he is confirmed by the Senate, deserves time on the job before we change that job for him. We have a top-flight manager coming into TVA, let's give him a chance to make his recommendations after a year or two have passed.

Finally, I continue to be concerned that it is risky to open up the TVA Act during the Reagan Administration, when there are more enemies of TVA in high places than ever before in the agency's history. Particularly at a time when we in Congress are being forced to sell precious government assets, it seems dangerous to be revamping TVA.

As for the merits of the proposals before you, the most important in my eyes is lifting the pay cap at least for the top nuclear employees. I hope that we may study this important issue very soon and resolve it at the congressional level.

The other proposals, while important, are not as urgent. The TVA Board, with its existing authority, has already implemented a number of important reforms without calling on Congress to "open up the act." Other reforms could be implemented as well.

We can profitably use the time between now and the next Administration to study the remaining proposals to see how they can best be implemented under a new, and I hope, friendlier, Administration.

To sum up, what we have here are procedural proposals designed to make TVA look like atypical American corporation. While that management chart works for many corporations, it does not work for all.

Before we change the unique nature of TVA, an agency that has an astonishing record of success despite its recent nuclear problems, let's concentrate on what is really important: fixing the plants, and finding quality personnel. Only the pay cap issue has any real bearing on these issues.

To use an Alabama football analogy Bear Bryant was often criticized for using a complicated, old-fashioned offense, which even sounds dumb, the "wishbone" offense. But it worked, and worked well, because of quality players and quality coaching.

TVA's unique management structure can work well under the same conditions. And a new, very talented player is just coming on the field.

Thank you, Mr. Chairman.

Mr. NOWAK. Thank you, Congressman Cooper.

I would like to invite back Mrs. Lloyd and Mr. Flippo for questions.

When you look at the changes that are recommended, I guess we are looking at really institutional changes that are going to have an awful lot of different kinds of responsibilities and accountability and to some degree it would seem that if the authority of the chief manager, or chief executive officer were changed, would this make a large enough difference?

I will ask all three of you this question; Mr. Flippo first, since his legislation would change that.

Would that be a move in the right direction or would that move not go far enough because of the, perhaps, institutional problems that have gone over the past 50 years?

Mr. FLIPPO. If I may clarify the Chairman's question; would the Chairman please repeat the central point?

Mr. NOWAK. Whether or not if we gave the authority more authority, broader authority to the general manager or chief executive officer, would that, in your opinion, not go far enough?

Your legislation takes us a step further. That has been suggested by some others.

Mr. FLIPPO. It has been suggested, and the strengthening of the general manager or the CEO is an important part of it. But without expanding the board, the current law mandates and gives responsibility for both policy and management to a three-man board, and a full-time three-man board would find it very, very difficult not to be involved in the day-to-day management of an operation. And for the reasons that I indicated, that the financial responsibility is primarily now with the ratepayer, it seems that an expanded board—so that you could have people with broad experiences in running—TVA is a $5 billion a year operation—you could have people with broader experiences serving on that board, bringing to it experiences in the financial world, experiences in operating large complex organizations, and also being somewhat representative of the ratepayer.

So I believe TVA must have undergone 40 internal reorganizations in the last 10 years. I believe I could produce enough press releases indicating at least 40 reorganizations internally.

But until you change the basic statutory, "What the Lord giveth, the Lord taketh away"—in other words, if the board grants greater authority to the general manager, the board can take a way authority from the general manager. And I think it is important that by statute we create the position of CEO and equip them with that authority, and above all to get the board into a policy-making arena.

Mr. NOWAK. Mrs. Lloyd

Mrs. LLOYD. Mr. Chairman, it seems to me that it would strengthen the role of a CEO to have a diversity of talents in a part-time board. The question has been asked, if it has taken two years to find another board member, why do you think you can get 9 members?

Mr. Flippo's bill calls for a part-time board. It seems those able to serve on the part-time basis would strengthen the ability of the board to govern and make decisions with a broader range of talents.

For instance, an expert in nuclear power would be of great benefit right now. There are so many areas where TVA's role has expanded, I think we need a diversity of talents.

Mr. NOWAK. Mr. Cooper, in your testimony you mention that you don't disagree with the goals, but it is the timing. I am wondering—you mention the fixing of the broken nuclear plants. That probably is a project that is not going to be accomplished overnight.

I wondered if you have any idea where and how long that would take in addition to the question that I just asked?

Mr. **Cooper**. On your specific point right now as we speak, a Chattanooga newspaper reported that the Nuclear Regulatory Commission is going to deal the restart of the Sequoyah Nuclear Plant, not due to any technical problems in the plant, but due to a technical-legal dispute over a statement that is almost two years old, that the Nuclear Power Manger, Steve White made regarding an entirely different nuclear plant, one located miles away from the plant that is about to be restarted. That is a question that, in my opinion, will end up costing valley ratepayers $5 million a day to resolve. And it is a question that has produced at this date due largely to slowness on the part of the NRC in doing their research and in doing their work.

I don't feel that valley ratepayers should be required to pay an extra penny due to NRC slowness. That is an example of a question involving Washington politics and Washington bureaucracy that is affecting the future of the TVA and it is a question that, in my opinion, is more important than technical management. Restructuring proposals.

As for the proposals, I think it is important to give credit to the existing board for having tried as best they could to limit themselves to policy-making roles, as I think Mr. Flippo and Ms. Lloyd would like them to be in, and for making the general manager as much of a CEO as possible.

In fact, the glaring difference between Mr. Willis, the general manager and a CEO is the fact that he is not paid a CEO salary. That is why I am interested in lifting a pay cap, so we can attract the best talent to the valley.

Mr. Willis should not be continued to be called on to make extreme personal sacrifices in order to serve in his current job.

Mr. **Nowak**. Mr. Sundquist.

Mr. **Sundquist**. Thank you, Mr. Chairman.

I commend my colleagues for their testimony. Mr. Flippo, what kind of reaction have you had from other groups that are interested in TVA to your legislative proposal?

Mr. **Flippo**. Don, as you and I have discussed on many occasions, various groups have been studying the issue. As I mentioned in my testimony, those who have conducted serious studies, have come forward with recommendations very similar to the legislation.

As you know, the Southern States Energy Board, and Mr. Radin, have come forward with recommendations that are very, very close.

Tomorrow you are going to hear from OMB and you are going to hear from the southern States Energy Board, as well as Mr. Radin and some others. It is my feeling that they are of the opinion that now is the time to move and to deal with this.

It is costing TVA ratepayers $5 million a day. Congress is the only one that can do something about it.

Thank you.

Mr. **Sundquist**. We need some changes. I don't think there is any question about it. It is impressive to me most groups who have studied it of all philosophies have come to the conclusion this is the time to do it.

Mr. **Flippo**. I am delighted. Thanks to you—let me tell you how much I have enjoyed working with you on developing this. It is important it be bipartisan.

It is important that all interested parties have a say in it and all the members from the valley have been interested in pursuing it and making TVA a viable organization.

Mr. **Sundquist**. Congresswoman Lloyd, as chairperson of our Tennessee Valley Caucus, you have spent a lot of time on this. I commend you for your leadership in this regard.

Mrs. **Lloyd**. I want to thank you for your hard work. You are a hard-working member of the Tennessee Valley Caucus.

I commend you for your leadership in planning the hearing for today, Don.

Mr. **Sundquist**. Jim, one question in your statement that I am a little bothered by. "It is risky to open up the TVA Act during the Reagan Administration, when there are more enemies of TVA in high places than ever before in the agency's history." That is pretty strong language.

Do you consider the Chief of Staff to the President of the United States an enemy to TVA?

Mr. **Cooper**. No. I am one of Howard Baker's greatest fans. My only complaint is he doesn't seem to be more powerful in the White House. I wish he had greater influence even.

I wish he had the influence Donald Regan seemed to have when he was in that position. I have been greatly worried Howard Baker's impact has been limited by extremists within the Republican Party who are not interested in seeing him succeed in that role.

I am all for Howard Baker and for strengthening his role in the current White House.

Mr. **Stangeland**. Would the gentleman yield?

Mr. **Sundquist**. I would be delighted to yield.

Mr. **Stangeland**. I would like to make a point here. We have very few friends in this Administration to the REA program. Let me tell you the House and Senate Agriculture Committees do a good job of taking care of the REA program. I want to assure, Mr. Flippo, Mrs. Lloyd, Congressman Cooper, that this committee and the committees of the House are going to be very sensitive to TVA.

I think you have no need to fear opening up the act at this time. I think we can write a bill that is a good consensus bill to help TVA on into the next decade, two, three, four decades without fear of problems with the White House. This White House is not sensitive to REA, but it is surviving very well.

Mr. **Sundquist**. If I may reclaim my time. I don't think from my discussions with Howard Baker, that he feels there is any extremism impeding his ability to do his job. I don't think we will ever have a better time to make these changes, frankly.

I have great confidence in Howard Baker that he will not let anything detrimental happen on the Administration's end. He has made a career out of protecting and strengthening TVA in the best way. I would disagree with your comments.

I would yield the balance of my time.

Thank you, Mr. Chairman.

Mr. **Nowak**. Thank you.

Mr. Grant from Florida?

Mr. **Grant**. Thank you, Mr. Chairman.

Just briefly, since Florida is not one of the States that is serviced by TVA, I will ask a general question. Maybe someone can enlighten me a little bit. Is this really a performance problem or a TVA policy problem? Is there something wrong overall with the performance of the present management style or organizational style other than the nuclear program?

Mr. **Flippo**. If I might take a cut at that, Mr. Chairman. I would—I think the gentleman from Florida is probably familiar with Mr. Fred Smith of Federal Express who served as a member of the Southern States Energy Board investigation. In a letter to Mrs. Lloyd, Mr. Smith said that as a corporate manager and the chairman of this advisory Subcommittee on Organization and Management of TVA, "I must tell you TVA has problems and moreover, the problems TVA faces are primarily the result of an archaic organizational structure which can only be remedied by congressional action."

Of course, the policies that are developed ultimately result in what someone has to pay for those policies In other words, as the policy is carried out, that ultimately determines what rates will have to be set. We have both problems of policy and there is no guarantees for improvement, but if we can have a broader-based policy, so that the people who pay the bills can have some say in the establishment of that policy, then I think we will be better off, and apparently, so does Mr. Smith.

Mr. **Grant**. You would have those board members elected?

Mr. **Flippo**. No. They would be appointed by the President the same way the current board members are. I would have the regional aspects of it so they would in a very loose way be representative of the people.

Mr. **Cooper**. If I may supplement my colleague's answer, I think it is important, especially for non-Valley members, to realize the TVA hydroelectric program is still viewed as first rate. The TVA coal-fired producing program is still widely viewed as first rate.

It has been in the area of the nuclear program, a very expensive program to be sure, that is still a relatively minor aspect of TVA's overall effort in its 50 year history.

The problem with nuclear seems to be a problem that was common with many private utilities, that the construction folks did not take sufficient care about building the highly technical, highly complex facility.

So many of TVA's problems are problems shared by private utilities who had standard boards of directors, who had standard management.

We are the largest and we are different this many ways, but so many of our problems are problems that even Florida Power or other utilities around the country have shared at least in some small part.

Mr. **Grant**. The major problem is with the nuclear program? Is there disagreement on that?

Mrs. **Lloyd**. I think the entire operation of the Tennessee Valley Authority has changed since the 1930s. The cost of doing business is certainly enlarged. I don't think you will find any corporation in Florida of this scope that operates with a three-man board.

This is not to cast any spell of discontent with our present board. We are not here to cut down our board.

We are saying because of the mission of TVA, that the Board needs to be enlarged. Any time that you have the authority to spend $30 billion, the decisions should probably be made by more than three people: We have a very fine board, but we are saying that we need more input and a greater advisory capacity because of the issues at hand.

Mr. **Flippo**. If I might supplement the statements of my esteemed colleague—and she certainly doesn't need supplementation—let me say the legislation you are considering today was developed and presented before TVA had a nuclear problem.

The nuclear problem did not prompt the efforts to equip TVA with a modern corporate structure of an expanded board, accountability to the people who pay the bills. My bill was on the table far before the problems of TVA's nuclear power became evident to the public.

Mr. **Grant**. Thank you.

Thank you, Mr. Chairman.

Mr. **Nowak**. Mr. Hastert from Illinois.

Mr. **Hastert**. Thank you, Mr. Chairman.

Congressman Flippo, and Congresswoman Lloyd—I want to say we probably have one of the higher paid chief executives of a power company in the country. We also have the higher rates. There is a correlation there.

Talking about restructuring, who determines rates?

Mr. **Flippo**. The three-member TVA board with nine-year appointments.

Mr. **Hastert**. They are the Public Utility Board? They have a dual role? They set policy, manage the operation and set rates?

Mr. **Flippo**. Yes.

Mr. **Hastert**. Do they have to apply to anybody to set rates?

Mr. **Flippo**. No. No outside review.

Mr. **Hastert**. What type of things are put in the rate? The operation costs, building costs?

Mr. **Flippo**. The TVA charter requires them to set rates at such a level as to recover their costs, plus since they are repaying the investment, they would have to cover that as well.

Mr. **Hastert**. What you are saying then the costs of the six nuclear plants that are not running are being recovered at this point, but there is no power being generated?

Mr. **Flippo**. Part of the cost is being recovered. TVA started out to build 17 nuclear units. They cancelled eight or nine, delayed some others and now at this point, nothing is producing. TVA capitalizes some of the costs of construction and some of the costs of bringing back on line.

You have some of the costs that are in a suspense account waiting to come into the rate base. Some of the cost is already in the rate base.

Mr. **Hastert**. All those plants, the six that are not being used, and we don't have to count the ones cancelled, were they deemed useful? Is there an agency that puts them into an operating mode?

Mr. FLIPPO. They have to come into an operating mode in accordance with the NRC's permission. They determine.

Mr. HASTERT. When they are determined in the meantime, were bonds floated to pay for these?

Mr. FLIPPO. Yes. TVA has in the neighborhood of $14 billion invested in nuclear plants. That is not producing and was funded largely by bonds.

Mr. HASTERT. If those plants came on line, would there be excess capacity in the system?

Mr. FLIPPO. I am afraid I have to defer to the experts in regard to that.

Mr. HASTERT. Is there a need for the electricity not being produced?

Mr. FLIPPO. It is also a debatable situation. Demand, level of demand is a debatable situation. TVA is acquiring power outside of TVA. Perhaps they suggest, at lower cost than they could produce it.

There are a lot of reasons involved. I am afraid I wouldn't be able to give you a definitive answer.

Mr. HASTERT. In the meantime, the debate with the operation is three people who are determining this operation are sitting out there with $14 billion worth of capital costing money to sit there, but there is no return?

Mr. FLIPPO. That is correct. That is part of the problem.

Mr. HASTERT. Basically, it is your premise that if you have enlarged that board and hired chief executives, that this would be somewhat remedied?

Mr. FLIPPO. I don't expect it to be a panacea. There are no guarantees. Everybody who studies TVA says this is an archaic structure. Let's get accountability into the system. TVA's vacancy on the board has lasted for two years. We need to attract people to the TVA board, with broader experience.

They can only do that in a part-time situation. Ontario Power, Mr. Radin, went up and studied his outfit. It was born in 1906. It was somewhat a model or forerunner for TVA at its birth. They had a three-man commission that operated up until the late sixties, early seventies. They experienced the same things that TVA has experienced in many ways.

They switched to an expanded board, part-time people. They were able to attract people with a broad base who could come in and serve in that capacity. So when you are setting the policy, when you decide to build 17 nuclear units, for instance, there can be broader based debate in that committee and the establishment of a policy.

Mr. HASTERT. I have one more question. I direct it to any of the three of you.

In determining rates, usually it seems like there should be at least what I am experienced with, in utility law, a bifurcated system. Otherwise, somebody operates and manages and then applies for rates.

You are not usually the manager and rate setter at the same time.

Mr. FLIPPO. Right.

Mr. **Hastert**. So there is some place people can go to. First of all, is there a feeling, an ill feeling among rate users that the management sets any rates they want to? Are they held artificially low?

How do you perceive that?

Mrs. **Lloyd**. Indeed, every time we have a rate increase, we have a great volume of mail that comes into our office. It is a subject of great concern. What really troubles the people I represent is that they have no input.

For instance, in the last rate increase, there was one hearing. I find this totally unacceptable.

Mr. **Hastert**. They hold the hearing and set the rate?

Mrs. **Lloyd**. There was one hearing. They set the rate.

Mr. **Cooper**. Mr. Hastert, I could add this. The point of a number of your questions seems to be that an outside regulator might be in some way helpful. It is important to realize neither Mr. Flippo's people or Governor Baliles promise such an outside regulator recommended.

It seems to me this is precisely the type of complicated problem we get into when we discuss TVA with non-Valley members, because we—while we want to reform TVA, all three of us, we are not interested in FERC or PSC, someone outside looking at rates.

We feel, at least I feel, speaking for myself, there are built-in safeguards in the current system. First, we basically are a nonprofit enterprise.

We are not out to enrich any shareholders. We don't even have to pay dividends to shareholders. We are there just to recover costs.

We have very low salaries, as you pointed out. I, at least, feel those safeguards were built in in the system. With the willingness of the Board to go out and visit around the valley, something they didn't do to the extent they usually do, to me those are safeguards that gave us rate security than perhaps you have in a private utility area.

Mr. **Hastert**. Congresswoman Lloyd mentioned there is some unhappiness about rates.

Mr. **Cooper**. There is always unhappiness about rates.

Mr. **Hastert**. What is the cost per kilowatt hour average?

Mr. **Cooper**. In general, our residential rates are among the best in the nation with the exception of the Pacific Northwest. Our rates have been edging upward and are not as competitive as they used to be, although they still are competitive.

We have built in a so-called residential rate preference which allows residential customers to enjoy the hydroelectric rate spread as far as possible over our eight million valley customers.

That allows the homeowners to enjoy the lowest rate. At the expense of local industry.

Mr. **Hastert**. Six cents per kilowatt hour, two cents, 15 cents?

Mr. **Nowak**. Mr. Hastert, it is 5.6 cents.

Mr. **Hastert**. Thank you, sir.

Thank you, Mr. Chairman.

Mr. **Nowak**. Thank you.

Mr. Packard from California.

Mr. **Packard**. Just one question.

Mr. Flippo, in your testimony I recall you saying there wasn't a good reason to raise the salaries of the CEO. You used the example of the Secretary of State being $99,000. How then do you equate salaries of other institutions being significantly higher than even what the President of the United States makes?

Mr. **Flippo**. Let me make sure I clarify. If I stated that, I didn't intend to do that.

In my proposal, there would be no limit on the salary of the CEO. The Board would determine that. Approximately—you are really talking about 20 to 30 current managers of TVA when you talk about exceeding the levels.

That is what the debate is. By and large, the bulk of TVA employees are nowhere near the current ceiling. So you are talking about a small group of people.

They are critically important people. The reasons that TVA does not have them are many, not totally salary oriented. That is a big factor and should be considered. I simply was suggesting that that group of people that the CEO and board should deem appropriate, we should not take the cap totally off of them.

Congress ought to retain that cap. I could not personally justify paying that group more than we do someone with the responsibilities of the Secretary of Defense or the head of NASA or something like that.

That is why I made my proposal, at the max at level one.

They are Federal employees. TVA employees are Federal employees.

Mr. **Packard**. It would appear to me if you took the cap off of the CEO or if there is no cap on the CEO, the CEO in conjunction with the Board would be the most logical to determine the salaries of those subordinates?

Mr. **Flippo**. That is certainly one view.

Mr. **Cooper**. If I may point out one thing, when my friend Ronnie Flippo says they are Federal employees, it is true they are regarded as such. It is also true their salaries are paid from ratepayer money, not American tax revenues.

We have been weening ourselves from Federal help since 1959. I am not sure whether that process is completed. TVA employees re not Federal employees in the sense we are used to thinking of it.

The general taxpayer of America is not taxed to pay the salaries of TVA employees or at least the lion's share of them. There is a separate, nonpower program.

Mr. **Packard**. Who does the hiring of the second level?

Mr. **Flippo**. The Board or CEO. Under my proposal, the CEO would do this. I would like to point out while my friend is exactly right, it is not taxpayer money, it is ratepayer money.

The ratepayers have no say on how it is operated or any of that. That is a major point of expanding the board.

To provide some, even though it is a loose connection—but to provide some connection between those who pay the bills, right now if there was no cap, what do you think current TVA salaries would be today?

Mr. **Packard**. Probably commensurate with other utilities.

Mr. **Flippo**. Maybe even greater. This is the same management team that we are talking about here. So I think that we ought to put some accountability to the people who have the financial responsibility.

Mr. PACKARD. Thank you.

Mr. NOWAK. Mr. Stangeland.

Mr. STANGELAND. Thank you, Mr. Chairman.

Ronnie, in your bill, you talk about creation of an independent IG. Does the agency now have an IG? What are the problems with the current arrangements?

Mr. FLIPPO. The Board did appoint an IG recently and he is doing so far as I can tell an outstanding job and so far as I am aware there are no problems.

I think he is making a great addition to it. It is currently appointed by the board. I would like to make it statutory so that it would have some statutory protections and serve the board in evaluating the efficiency and effectiveness of the CEO. I think it works well.

Also, the section of the bill in here is in compliance with the Jack Brooks committee's approach to an inspector general being appointed by the board rather than the President for small Federal agencies.

Mr. STANGELAND. Mrs. Lloyd, you talk about removing the salary cap. I understand that, but isn't this a problem generally in the Federal Government? If we should exempt TVA management from a pay cap, should we also exempt managers of the Bonneville Power Administration from a pay cap? Or is that comparing apples to oranges?

Mrs. LLOYD. I think it is important to re-emphasize the power program is paid for by power revenues. The TVA Valley residents pay for this program. It does not come out of Federal revenues. It does not come out of your tax dollars.

Pretty soon, the chickens are going to come home to roost. We have continued to expand our borrowing authority. Pretty soon the ratepayers are going to have to repay this debt, much as we are facing now as we look at the Federal deficit.

My concern is that after the turn of the century, we're able to have power at a competitive rate. Sure, we have a low rate right now. We admit that.

But are we going to . after the turn of the century? Are we going to continue to have competitive rates?

Will we be able to draw the industry into our valley?

This is the issue. Unless we have a strong diversified board—with broad management background, it is my fear that we will not be competitive because we cannot continue to increase our borrowing authority and continue to increase our debt. Indeed, this does have to be lowered by the ratepayers. This is a major concern.

It is one of the reasons I am so strongly in favor of expanding the board at this time.

Mr. STANGELAND. Would your bill on pay caps apply solely to the nuclear program or also the hydropower program?

Mrs. LLOYD. First of all, it would call for a survey of competitive and parallel responsibilities of CEOs, annual adjustments that would be made. Then, of course, it would have to be approved by the Board and at that point, there would be a 30-day period for the Congress and the residents of the Valley to comment, to approve of it. Then, of course, it is also under the responsibility of the CEO to determine which one of the levels of top management should have pay increases.

I think it is noteworthy when you look at the CEOs across the nation, of utility companies, and TVA is in the top 15 corporations of the nation, that where we are paying less than $100,000, the top utilities start about $800,000 annually. I enclosed a chart listing that.

I believe you have that.

The lowest of the CEOs of a major utility comes in at over $400,000 a year, in the same area. Duke Power, our neighbor. You realize there is something wrong.

We will get what we pay for. If we want good strong management, we have to pay the bill.

Mr. STANGELAND. I gather—and I guess I don't want my remarks to be misinterpreted by anybody in the audience—there is a real problem with TVA, not necessarily the people that are there—but because of the archaic nature of the structure that governs the TVA—to the point where you are getting a new board member, Mr. Marvin Runyon, whom I do not know. I expect in your estimation he may be the greatest thing since sliced bread, but he alone will not solve the problem as a new board member that you have under the current structure?

Mrs. LLOYD. It is not going to self correct. Our board members are fine, talented, conscientious people But what we need is an expansion of the board to diversify the authority and the ability to bring in a strong CEO and to do that, we have to pay the bill.

Mr. STANGELAND. One more question. By increasing the number of board members, and requiring board members from specific States, does this give any opportunity for parochialism or politics to enter into the board's decision-making process?

Mr. FLIPPO. If I might address that, Mr. Chairman. In the last—I don't believe it will work to that effect. I don't believe it will introduce any politics into it or any parochialism into it. I believe it serves—as the gentleman pointed out, the Public Service Commission type of function for the board.

An expanded board with the people who have the financial responsibility with some representation on it would feel more comfortable and in its regional development role, what makes more sense than to have people from the region on that board?

Now, in the last 25 years, Mr. Stangeland, the President has appointed and the Senate has confirmed nine members to the TVA board. Out of the nine members, six have come directly from the State of Tennessee, two others had close ties to the State of Tennessee, and they have been outstanding members, all of them have. But I am saying that there is nothing wrong with having regional representation for a regional development organization and there is nothing wrong with having your rates set by someone from your region, with some kind of impact into it. It seems to me that that would be the appropriate way to go.

Mr. STANGELAND. Then one last question, and I am looking at how you suggested the members should be appointed. I am wondering if you would think that that should probably be tightened up; that either the Governor or Members of Congress should recommend a list of candidates to be on the board as opposed to recommendations from interested individual citizens, business, industrial, labor, electrical power distribution, and environmental groups.

I wonder if you are not getting too many special interests into the mix of who is going to be a board member and who isn't. I actually was going to ask you if you really want this board to represent the rate payers. How about electing them to the board? We do that in REA co-ops. I think if you want good talent on that board, I am not sure you always get the best talent by election. Somebody will point their finger at me and say, "You are elected." I will have to say maybe I am not the best talent either.

Mr. FLIPPO. I think you are an outstanding talent, Mr. Stangeland. I can assure you of that. The reason I named those groups, those are the groups that have a strong interest in the TVA. I didn't want to preclude any group from recommending to the President possible candidates for service on the TVA board.

In my legislation, the President, as he does today, continues to have the sole authority to appoint and the Senate still has the sole authority to confirm. So what I am trying to do is get the broadest base we can get. It is, of course, up to the President. To do otherwise, would be to reduce the President's authority in the legislation.

I think we have enough trouble without taking on the President in regard to the matter.

Mr. STANGELAND. I just mentioned it to you. I wondered if those interested individuals should not ought to be recommending to Governors and maybe the legislation should require a Governor in the event of a board vacancy to nominate two or more to the President for the President's choice in selection. It is just something we ought to look at, I think.

Mr. FLIPPO. I appreciate the gentleman's suggestions. I look forward to working with him in regard to that matter.

Mr. STANGELAND. Thank you.

Mrs. Lloyd?

Mrs. LLOYD. I think there is a diversity of opinion in the delegation on the make-up of the board.

Basically, what we are saying today—Mr. Sundquist and I are saying—is that we are supporting Mr. Flippo's bill. There is one area that I am not in total agreement. I don't think it is a big enough problem that it would cause me to withhold my support.

Mr. STANGELAND. Let me say this: I think a regionalized concept of board members to get a good mix is fair.

Mrs. LLOYD. I think it is a good idea to have somebody from Alabama. I have no problem with that.

Mr. STANGELAND. It is how they are brought out.

Mr. COOPER. If I may raise a point about residency requirements, the incoming Chairman of the Board, Marvin Runyon, unless he had happened to have worked at an automobile plant in Tennessee for the last several years, would not have qualified under some of these proposals because he was born in Texas and lived most of his life in Michigan.

Fortunately for us, he recently has been living and working in Tennessee. Under even the most restrictive of the proposals, that would make him eligible to serve on the TVA Board. It is my belief if we are really going to get top flight managers, we need to pay them what they are worth and we need to open up the search for any top flight manager wherever they happen to live.

Just as long as once they get the job, they then move to Tennessee and start paying TVA rates at that point. I would hate to see the day in which a Lee Iacocca would be disqualified because he was from Michigan. I would hate to see the day that another talented manager would be ineligible automatically simply because of where he happened to be living at that moment.

Mr. STANGELAND. It would seem to me there is nothing in here that says the CEO can't come from Timbuktu if he wants to.

Mr. COOPER. The CEO. But the policy-makers would be restricted.

Mr. STANGELAND. Except two could be residents of anywhere. Lee Iacocca would qualify.

Mr. SUNDQUIST. I would like to make a point that under Mr. Flippo's bill, the managers would come from anywhere. Lee Iacocca, if we could get him to be the CEO, would be no problem. There would be some outside directors on either Mrs. Lloyd's proposal or on your proposal. Is that correct?

Mr. FLIPPO. The gentleman is precisely correct. There would be no provision in my bill, either on the board or as manager that would prohibit Lee Iacocca, Mr. Runyon, or anyone else from serving on the board.

Mr. SUNDQUIST. I thank the gentleman.

Mr. NOWAK. I want to thank certainly Mr. Flippo for the bill and for this inquiry into this whole matter. I think we can see just with the brief testimony we have had there is divided opinion and an awful lot of questions that will have to be answered.

I would just state for the record that we intend to hold the record open and fill in any gaps and we may request you to reappear here at a later time after we hear from some of the other people who have been involved with the TVA in an administrative responsibility and perhaps others that have studied this question.

I want to thank you for taking the many years you had to study this situation. I know this is not a—will not be the end of this inquiry. We want to invite you as you go back and review, not only your testimony, but others to make further comments. I will leave the record open for that.

Mrs. LLOYD. We thank you very much, Mr. Nowak. We appreciate your interest. Although TVA is the life blood of our districts, it is also a national asset.

Mr. NOWAK. We understand. Thank you very much.

[The prepared statements of Representatives Lloyd, Flippo, and Cooper follow:]

Honorable Marilyn Lloyd

Statement before the
Subcommittee on Water Resources
Committee on Public Works and Transportation

December 8, 1987

First, I want to thank the Chairman for allowing me this opportunity to speak to the Subcommittee on a topic that is of the utmost concern to me, the Tennessee Valley Authority.

As I am sure many of you remember, I served on the Public Works Committee for many years. Currently, I serve as the Chairman of the informal Tennessee Valley Congressional Caucus comprised of those Congressmen and Senators whose constituents reside in the TVA service area. My Congressional District includes one of the highest percentages of TVA employees as well as assets. Add to these factors, my personal belief in TVA, its mission, its accomplishments, and its future, and you will understand my commitment to TVA.

Before I discuss the issue at hand I would like to comment on a related matter. The Senate Committee on Environment and Public Works will soon hold the confirmation hearing of Marvin Runyon as the new director at TVA. He is a strong, able manager, and we in the Valley delegation have high hopes for his term. I believe we are blessed to have such a positive and determined new leader at TVA, but we must use caution that we don't heap too much responsibility on his shoulders. Mr. Runyon will be inheriting a mess not of his own making. TVA will not self-correct. Mr. Runyon is going to need every tool available in order to make the agency the yardstick of the industry once again.

We have to give him the necessary tools, and I will do everything I possibly can to help.

In September of this year, Virginia Governor Gerald Baliles briefed the Caucus on the Southern States Energy Board's Advisory Committee on the Tennessee Valley Authority report. Then, in October, the Caucus held a hearing to listen to testimony from a variety of interested people concerning both the Flippo bill (H.R. 2025) and the SSEB report. Some of their comments were most enlightening.

There were two points observed in those hearings. The first was that there is not a consensus on the reorganization proposals. Some support it, some do not, and some apparently have no position. The second point was much more interesting. All those who testified wholeheartedly support increasing management salaries at TVA. I find this very significant, because these comments came from people who will have to pay for those increased salaries. If they are willing to pay for it because they recognize the need, is it fair that the Federal Government stands in the way?

The subject of TVA reorganization has received considerable attention the past few months. My esteemed colleague, Congressman Flippo, has advocated change in the management structure for a number of years now -- I am happy for him that his perseverance seems to be paying off.

Although Mr. Flippo and I have traditionally agreed on many things, I have, until now, not been able to support his bill.

My principal reason for not co-sponsoring his legislation was my strong belief that it would be dangerous to open the TVA Act during the current crisis in the nuclear program. I believe I can speak for the entire delegation when I say that our highest priority is to see those nuclear plants safely back on line. Our ratepayers are suffering an enormous economic burden each and every day those plants are out of operation.

But let's look at what was one of the root causes that led us to our present dilemma -- a management crisis of monstrous proportions. TVA management has themselves admitted this crisis. Without rehashing all of our problems, suffice it to say that we had a tremendous management breakdown. What we have have been trying to determine is how to prevent this from ever happening again.

Gentlemen, the status quo is definitely not acceptable. I am convinced that business as usual will be our ruination.

So what do we do? TVA's management structure was created with the agency in 1933. We all know many, many things have changed since the '30s. I believe it's time to bring TVA closer to the late 20th Century if it is going to survive into the next century.

However, there is still the question of the advisability of opening up the Act now -- the plants are still down; TVA is still very vulnerable. I have heard many arguments supporting the idea of NOT opening the Act, and I would like to discuss a few.

First, there is the matter of TVA's vulnerability. I don't see this factor eliminated until the completion of the recovery program -- which could take years. A management reorganization could go a long way toward promoting more confidence in the agency from the Nuclear Regulatory Commission's point of view. I believe it will also contribute greatly to re-establishing public confidence.

Perhaps, as some have said, we could separate policy-making from day-to-day management without legislative direction, but as I interpret the Act, this will be very difficult given the language in the law. Furthermore, without legislation, we have no guarantees that a subsequent board might revert back to the "hands on" approach. No, I believe Congress needs to be very specific about that issue.

Gov. Baliles, and indeed the entire Southern States panel, were convinced that the time for change at TVA is now. We cannot continue with business as usual and be prepared for the 21st Century. Right now, we have our window of opportunity, and we must act. And as I indicated earlier, support for these changes is gaining remarkable momentum. I intend to keep that momentum growing.

Aside from the separation of management and policy-making, Mr. Flippo's bill calls for and outlines responsibilities of a strong chief executive officer. I am totally committed to the belief that we desperately need this. I make no judgement or criticism of current staff; it is simply the top positions have evolved through a flawed system. It is Congress's responsibility to correct the flaws.

For these reasons (as well as others), I now place my full endorsement behind Mr. Flippo's bill. Although I would like to see a few changes made, they are not enough to affect my overall support. I commend my colleague for his foresight and his determination. And before this Committee, I pledge my support to bring these changes about.

My only concern regarding Mr. Flippo's bill is my conviction that it does not go far enough in its revamping of the agency; specifically, it does not, in my opinion, adequately address the Federal pay cap. For that reason, I am crafting my own legislation which I believe will complement his. I am preparing a bill to alleviate a significant problem at TVA -- the Federal pay cap.

The current compensation limit imposed on TVA for its employees has resulted in a critical lack of imaginative talent at the top levels of management -- particularly in the nuclear program. The ratepayers of the Tennessee Valley are currently supporting a small group of contract managers who earn considerably more than TVA employees. According to a GAO report, TVA is paying the managers' companies $118,000 to $250,000 annually for the loan of these key technical people. I am convinced that TVA would save a minimum of $1 million per year if simply allowed to pay a "prevailing market price" for key personnel. Savings to the agency could go as high as $2 million. TVA estimates that if the cap were lifted for key positions, the impact on its budget would be an increase of one-half to $1 million. It is important to note that these salaries would be part of the power budget, therefore NOT taxpayer dollars.

The one issue that seems to be unitedly supported by the Congressional delegation, TVA-related groups such as the Tennessee Valley Public Power Association and the Tennessee Valley Industrial Council, and even TVA itself is the pay cap issue.

TVA ranks as one of the 15 largest corporations in the United States today. It is one of the largest utilities. Yet, its salary structure is well below much smaller utilities. This discrepancy, I believe, is detrimental to the present operations and will be disastrous to the future.

There is already a precedent for exemptions from the pay cap. Title 5 of the U.S.Code, section 3104 establishes "Special Pay Provisions for 517 Scientific and Professional Positions in Federal Agencies." Unfortunately, TVA was exempted from this action. In the 98th Congress, the Extension of Federal Physicians Comparability Act of 1978 was enacted providing for more competitive salaries for V.A. doctors. There has even been an Executive Order which allowed higher salaries for professionals. In my mind, the precedence has been established.

My bill will offer reasonable checks and balances and will provide for Congressional oversight of this matter. I will outline a few key points:

-- The compensation plan would be developed after an annual survey of the prevailing salaries, benefits and incentives for similar work in private industries and utilities.

-- The Board would approve the compensation plan.

-- No salary could be established until after the survey and the compensation plan had been made available to Congress and the public for 30 days.

-- The general manager or chief executive officer would determine those salaries which fell within the pay cap restrictions.

Throughout the '80s, independent reports were recommending that TVA's salary structure needed "an overhaul." According to Robert Sansom's 1981 report for President Reagan, "Top-level executives who manage $5 billion in assets with another $12 billion in construction need to be compensated accordingly." Today, TVA's total annual budget is nearing the $7 billion mark with assets at $24 billion. In 1983, even the Grace Commission recommended that the Administration should approach Congress to increase management salaries. The Commission said, "The potential benefits in terms of increased efficiencies, safety improvements and management effectiveness are enormous."

That gives rise to yet another argument in favor of this proposal. Safety. With our vast nuclear program, we must be assured that those people overseeing that program are the best. Our nuclear plants WILL come back on line, and the people in the Tennessee Valley deserve the most talented people available to run that program. The only way to accomplish that is to pay those people the market rate. It is imperative that Congress fulfill its obligation to give TVA the tools it needs to operate efficiently, effectively, and most importantly, safely.

In the Southern States Energy Board report on TVA, several salary surveys were reviewed and compared to TVA positions. In outlining the TVA jobs, I noted 19 positions of high level management, such as managers, directors, and management positions that are considered vice presidential positions in the private sector. In 1986, those 19 positions were paid between $74,300 and $74,100. 19 people of the highest level of management and responsibility separated by $200 in annual salary. This is not only archaic -- it's obscene!

Again, in 1986, the top salary available at TVA is $74,500 for the general manager. By comparison, the 1986 compensation of CEOs at five of the biggest utilities in the nation, of which TVA could be included, are:

-- American Electric -- $563,000
-- Commonwealth Edison -- $384,000
-- Consolidated Edison -- $650,000
-- Pacific Gas and Electric -- $452,000
-- Southern California Edison -- $684,000
-- and even in our own region, Duke Power -- $402,000

A multi-billion dollar utility needs talent. TVA needs the bargaining power to attract that talent.

I believe the pay cap issue must receive immediate action. I am convinced that without this element, reorganization efforts cannot succeed. I will be talking with many of you further in the next few weeks regarding my proposal for dealing with the pay cap. I ask that you keep this issue in mind as you consider options available for TVA's future.

1986 - REMUNERATION
UTILITY COMPANIES

COMPANY	CHIEF EXECUTIVE OFFICER	($000) SALARY AND BONUSES	RANK IN INDUSTRY
Allegheny Power	Klaus Bergman	$ 271	50
American Electric	Willis S. White	$ 563	12
Atlantic City Electric	E. Douglas Huggard	$ 235	59
Baltimore Gas and Electric	Bernard C. Trueschler	$ 348	33
Boston Edison	Stephen J. Sweeney	$ 335	41
Carolina Power and Light	Sherwood H. Smith, Jr.	$ 348	40
Central and South West	Durwood Chalker	$ 469	18
Central Hudson Gas and Electric	Theodore J. Carlson	$ 121	73
Central Ill. Public Svc.	Donald G. Raymer	$ 207	64
Cincinnati Gas and Electric	J. H. Randolph	$ 192	70
Commonwealth Edison	J. J. O'Connor	$ 384	32
Consolidated Edison	A. Hauspurg	$ 650	5
Consumers Power	W. T. McCornick	$ 400	29
Delmarva Power and Light	Nevius M. Curtis	$ 279	48
Detroit Edison	W. J. McCarthy	$ 450	24
Dominion Resources	Wm. W. Berry	$ 467	19
DPL	Peter H. Foster	$ 461	21
Duke Power	Wm. S. Lee	$ 402	28
Duquesne Light	J. A. Arthur	$ 202	68
El Paso Electric	Evern R. Wall	$ 305	46
Florida Progress	Andrew H. Hines	$ 516	16
FPL Group	M. McDonald	$ 543	13
General Public Utility	Wm. G. Kuhns	$ 393	31
Gulf States Utilities	E. Linn Draper	$ 262	56
Houston Industries	D. D. Jordan	$ 579	9
Idaho Power	R. J. O'Connor	$ 190	71
Illinois Power	W. J. Kelley	$ 326	44
Ipalco Enterprises	Zane G. Todd	$ 529	15
Kansas City P & L	Arthur J. Doyle	$ 268	52
Kansas Gas and Electric	Wm. K. Cadman	$ 206	66

COMPANY	CHIEF EXECUTIVE OFFICER	($000) SALARY AND BONUSES	RANK IN INDUSTRY
Kentucky Utilities	Wm. B. Bechanan	$ 229	61
Long Island Lighting	Wm. J. Catacosinos	$282	47
Louisville Gas and Electric	Robert L. Royer	$ 186	72
Middle So. Utilities	Edwin Lupberger	$ 351	39
Minnesota Power	Jack Rowe	$ 394	30
Montana Power	W. P. Schmechel	$ 273	49
New England Electric	S. Huntington	$ 368	36
NY State Electric and Gas	Wells P. Allen	$ 261	57
Niagara Mohawk Power	J. G. Haehl Jr.	$ 371	34
Northeast Utilities	Wm. B. Ellis	$ 463	20
No. Indiana Public Svc.	Ed. A. Schroer	$ 328	42
No. States Power	D. W. McCarthy	$ 531	14
Ohio Edison	Justin T. Rogers	$ 428	26
Oklahoma Gas and Elect.	J. G. Harlow	$ 353	38
Pacific Gas and Elect.	Richard Clark	$ 452	23
PacifiCorp	Don C. Firsbee	$ 607	8
Pennsylvania P & L	R. K. Campbell	$ 315	45
Philadelphia Electric	J. L. Everett	$ 370	35
Portland General	Robert H. Short	$ 326	43
Potomac Electric	W. R. Thompson	$ 627	6
Public Service of Colorado	R. F. Walker	$ 262	55
Public Service of Indiana	H. A. Barker	$ 206	65
Public Service of NH	R. J. Harrison	$ 216	63
Public Service of NM	Jerry D. Geist	$ 563	11
Public Service E & G	E. J. Ferland	$ 416	27
Puget Sound P & L	John W. Ellis	$ 237	58
Rochester G & E	Paul W. Briggs	$ 268	51
San Diego G & E	Thomas A. Page	$ 452	22
Scana	J. A. Warren	$ 233	60
So. Calif. Edison	H. P. Allen	$ 684	4
So. Company	E. L. Addison	$ 697	3
Southwestern Public Service	B. Ballengee	$ 266	54
TECO Energy	H. L. Culbreath	$ 614	7
Texas Utilities	P. G. Brittain	$ 470	17
Tucson Electric	Einar Greve	$1,625	1

COMPANY	CHIEF EXECUTIVE OFFICER	($000) SALARY AND BONUSES	RANK IN INDUSTRY
Union Electric	Wm. E. Cornelius	$ 436	25
Union Illuminating	G. A. Edwards	$ 226	62
Utah Power and Light	J. A. Taylor	$ 204	67
Washington Water	Paul A. Redmond	$ 198	69
Wisconsin Electric	C. S. McNeer	$ 361	37
Wisconsin P&L	J.R. Underkofler	$ 266	53

AVERAGE SALARY AND BONUSES IS $385,239

SOURCE: FORBES, June 15, 1987

Prepared by: Department of Research
and Education, I.B.E.W.
July, 1987

Statement of the
Honorable Ronnie G. Flippo
of Alabama
Before the Subcommittee on Water Resources
Committee on Public Works and Transportation
December 8, 1987

Thank you for the opportunity to share some thoughts on the Tennessee Valley Authority and H.R. 2025, a bill to amend the Tennessee Valley Authority Act of 1933 --- to improve the method of governance of the TVA, to improve its economy and efficiency, to increase its accountability, and to make it more useful to the nation and the people in its service area.

Mr. Chairman, you and your predecessors on the Water Resources Subcommittee, have been most attentive to the needs of TVA throughout the years. In 1979, this committee held hearings to increase the borrowing authority of TVA. This borrowing authority supports the capital investments for the electric power program and is totally the responsibility of the users of electricity in the TVA area. In 1982, the subcommittee conducted field hearings on TVA and heard a number of witnesses speak of the apparent unresponsiveness of the agency and the lack of review and redress of decisions made by TVA.

You and your predecessors continued to keep in touch with the status of TVA through direct contact with Members from the service area and by staff review of TVA activities and reports. I commend you for your interest and thank you for your past support.

Because of the importance of TVA to the people who elect me, I have devoted, during my tenure in the Congress, a considerable amount of my time and staff resources to this agency of government. An efficient and effective TVA is critical to the economic success of the people I represent and of an important section of this nation. That problems exist at TVA has been apparent to serious observers of the agency for several years. In an attempt to get to the root of these problems, I have carefully studied the TVA, its history and how it functions.

The major thrust of my work precedes the present failure so evident in the TVA nuclear program. If all of the nuclear units were restored to safe operation today, the TVA, in my opinion, would still need a significant change in its management structure to enhance the TVA's accountability and responsiveness to the people it serves; to give some degree of linkage between policies of the corporation and the people who must pay the bills for the decisions being made by the board; and to improve the prospects for more economic and efficient operations.

I am not alone in these conclusions. Others before me and after me have reached similar positions after thorough study of TVA's management structure.

In the late 1970's, several Members introduced legislation to broaden TVA's management perspectives by increasing the number of board members. The Reagan transition team in 1980 recommended, among other things, a restructuring of the TVA Board and a creation of a Chief Executive Officer position.

The Senate Public Works Committee, following hearings in 1981, agreed with the idea that TVA had management problems but decided to await the results of yet another new management team before addressing what is more clearly seen now as a systemic problem in the way management of TVA is structured.

My own studies reached similar conclusions and in 1983 I started public discussions of the problems while attempting to draft legislation that would correct the problems yet still preserve, to the greatest degree possible, those unique characteristics of TVA which have served the nation and the region so well during the previous 50 years.

It was about this time that the TVA management problems began to be more evident in TVA's nuclear program. The nuclear program represents a significant investment on the part of the people of the area. More than 85 percent of TVA's outstanding debt is a result of the nuclear construction or restoration program. Interest charges alone on the nuclear debt cost rate payers of the TVA approximately $4 million a day whether or not the plants are in production.

Nuclear Regulatory Commission warnings about TVA's nuclear operations, maintenance and quality assurance go back to about 1980. The Commission staff clearly identified TVA management policies as the root of the TVA's nuclear problems in a letter to TVA dated July 3, 1985.

Following introduction of legislation in 1986 to correct TVA's management structure, the distributors of TVA power commissioned an independent consultant to review the merits of the proposal. The consultant, Alex Radin, also came to the conclusion that changes were needed in TVA's management structure.

Next, TVA engaged Coopers and Lybrand for a management review of the Board and general manager organization and decision making process. (Coopers and Lybrand have been TVA's external auditor for a number of years.) The review, however, was limited by TVA to the existing organizational structure, i.e. a three-member board for both policy and management and a general manager (non-statutory). Even within the limitations imposed by the Board on the review, Coopers and Lybrand recommended increasing the authority of the general manager, probably to a greater degree than that provided by the existing TVA law.

More recently, Governor Gerald Baliles of Virginia, as Chairman of the Southern States Energy Board, assembled a prestigious group of people with national stature to study TVA and its potential for service to the nation and the region. This distinguished group also strongly recommended changes in TVA's management structure along the lines of that proposed in H.R. 2025.

Thus, those who have seriously and freely considered TVA in recent times have determined that the existing Board structure is in fact the root of past problems in TVA's program. While some may be tempted to blame Board personalities rather than the structure under which the Board is forced to operate, in reality TVA's difficulties have persisted through several changes in board membership.

Because the decisions made by TVA still determine whether the area I represent prospers or stagnates, I am determined to do what I can to see that TVA has a structure that is responsive and responsible

I consider myself one of TVA's strongest long-term friends. I want to see a strong, efficient TVA which has the confidence and support of the people it serves and of the entire United States. I care deeply and personally about what happens to TVA and its capacity for service to the people of the region. Because I would like to see TVA survive for another 50 years, my proposal seeks to improve TVA, to strengthen it, and enable it to survive in the kind of climate that both government and business are subject to today.

My legislation, H.R. 2025, deals with three fundamental issues:

1. Whether the Board of Directors should be a broadly-based, representative, responsive policy-making group rather than a body which, at present, is of limited size and has responsibilities for both policy-making and management;

2. Whether the day-to-day management of the agency should be delegated to a strong, experienced executive officer whose position is invested with powers mandated by law, and whose pay reflects abilities and performance, and

3. Whether TVA can devise a compensation system to permit it to attract and retain the highly qualified technical and management personnel needed to manage and operate this agency.

TVA has attempted in the past to adopt changes in decision-making, planning and budgeting. The Authority at this time has under review yet additional internal changes in structure and organization.

It is possible that the modifications in the early 1980's did make improvements in the management of TVA. It is even possible that these changes and the new internal reorganization under review can put in place the ultimate improvements possible under the kind of handicap which TVA must operate-- that is, the lumping of both policy and management functions in a three-member board of essentially equal persons.

Yet nothing the TVA itself can do can change the law which lumps both the creation of policy and the management functions within the Board.

Neither can the TVA Board divest itself of the responsibilities placed on it by the TVA Act in an effort to create a stronger more powerful chief operating officer as desirable as this might be.

These are issues which must be addressed by the Congress. The time to do so is now. To prepare TVA to be a useful, functioning part of our nation and region, we must recognize that this is not 1933 and the challenges and conditions faced by TVA have changed. So we must change the ways and means of dealing with them.

The TVA problems which have accrued over the years should not be blamed on the personalities, capabilities, nor dedication of the past or present board members. Neither is there any likelihood that any new board member can come riding in on a white horse and rescue the corporation under the present policy-management structure.

Regardless of who is chairman or who is on the board, it still takes two members to establish a policy or to make a management decision or follow-up on that decision.

Two people are too few to establish policy for a public agency. Two people are too many to be responsible for the management of such an agency.

Pay is another difficult element of TVA's problems. It probably can be shown that some executives in the electric power industry, especially in nuclear power, earn greater salaries than are payable by TVA. Also, it probably can be shown that the payments to the temporary contract personnel engaged to salvage TVA's nuclear program are about twice as much as the same type of people would earn in regular employment in private industry or elsewhere.

Yet, it can also be shown that most of the people leaving TVA's nuclear program do so for reasons other than salary limits. In addition, TVA has operated, and continues to operate, hydro and fossil fuel generating programs with executive salaries less than those paid in similar privately-owned systems.

TVA could no doubt recruit from a larger pool of nuclear managers if pay limits were not a factor. H.R. 2025 addresses the problems of TVA's pay limits within the concepts that apply to some of the other agencies of the Federal government. It allows the Board to establish recruitment or retention payments in certain cases. It allows recognition of superior performance through annual rewards. The amount of salary plus rewards or payments could not exceed the pay of Level I of the Executive Schedule, the same limit which applies to the other agencies of government. Under H.R. 2025 the expanded TVA Board would have greater flexibility in establishing a pay and bonus system for the Chief Executive Officer.

These observations are in no way an effort to deny that TVA, especially its nuclear program, is in serious trouble. The residents of North Alabama, Tennessee and other service areas are paying almost $4 million a day in interest charges on a nuclear investment that has not produced a single kilowatt of electric power in more than two years. Additional extra costs are also involved for the high-priced temporary consultants and the re-documentation or re-building necessary to provide the assurances for safe operation of the plants.

To the agency and its employees, the cost of the TVA's short comings has been a loss of pride, and prestige and confidence. It is the rate payers who must reach into their pocketbooks to pay the full dollar costs of TVA's failures and mismanagement in the nuclear program and elsewhere. No other stockholders are available to share the burden of the nuclear mismanagement or any other miscalculation which may occur in the future as a result of a faulty management structure.

As TVA rate payers, we need a little more say about the direction TVA policies take in the future.

We need a little more assurance that TVA is being managed in the most efficient and economical manner.

We need a better sense of checks and balances which would come from separating the management and policy functions so TVA can be run more like a business.

There is no better time than now to start the process of giving TVA the structure and tools it needs to remain a viable and healthy instrument of the people's progress for another fifty years.

I hope you will carefully review the statements of the others who have studied the problems of the existing TVA management structure and will report legislation such as H.R. 2025 to give TVA the management tools to enable it to continue to be a vital and productive part of the nation's economy.

INFORMATION TO ACCOMPANY H.R. 2025, 100th Congress, A bill to amend the Tennessee Valley Authority Act

AN OVERVIEW

This legislation is designed to improve the efficiency and economy of the Tennessee Valley Authority by correcting a serious structural flaw in the governance arrangements of the Corporation. It separates the responsibility for establishing policy from the day-to-day execution and management of that policy which is presently vested in the same body, the Board of Directors. The proposal is limited to Section 2 and one paragraph in Section 3 of the basic TVA Act.

The bill requires public participation in the creation of TVA policy and establishes checks and balances on the management and execution of policy by lifting the Board out of the responsibility for day-to-day management. Policy for TVA would be established after public hearings in the region by a board of directors patterned after the boards of other large, complex organizations in this country. Execution of the policy would be the responsibility of the chief executive officer.

The legislation also alters the TVA pay ceiling which is presently limited by the salary of full-time Director-Managers. The TVA's Inspector General is also given statutory authority and protections by the proposal.

Rather than attempting to provide strict guidelines on how the newly constituted TVA Board would operate, the legislation provides the kind of broad authority which was built into the original act to establish "a corporation clothed with the power of government but possessed of the flexibility and initiative of private enterprise." For example, only two Board committees are required by the new statute but it is expected that the experience of the new Board members and their embracing of modern corporate board practices will dictate the creation of other committees such as an executive committee and a compensation committee to name some obvious examples.

Because the new Board is larger and will include people with a broader range of experiences and backgrounds, because the new Board has geographic diversity and members would have a better chance of hearing the views of people served by the Corporation, and because the Board would be limited to a policy making role, the flexibility and broad general authority vested in the Board would be exercised with more sensitivity to the views of the people served by the Corporation.

While the new legislation clearly increases the role of citizens in the policy-making aspects of the Corporation, it moves in the opposite direction in regard to the management of the TVA. Professional management is required by the legislation. The Board is empowered to hire a chief executive officer with experience in running large, complex organizations. This officer's salary and tenure would be determined by the collective judgment of the Board. The officer's bonuses would be determined by the performance of the Corporation. Other managers and employees also would be recognized for superior performance. In short, although some government-wide restraints would still apply to TVA, it would be possible to reward the superior performance of employees who enable TVA to operate more efficiently and economically.

The archaic combination of responsibilities for policy, management, and the evaluation of both within a single body of Director-Managers has been mentioned as a problem for TVA in many examinations of the Corporation. Some have stressed the lack of public involvement in planning and setting policy. Others have faulted the lack of accountability inherent in a system with a three-person manager. Various proposals to address such problems have been advanced. Recommendations have varied on such things as the number of Board members, terms of service, and the qualification of Board members. For a public agency such as TVA, such matters are appropriate subjects for attention of the public and the Congress. The sponsors believe this legislation answers these concerns and creates a policy-management framework which can improve the efficiency and economy of the TVA.

Much concern has been expressed in the TVA area and elsewhere about the current crisis at TVA involving the nuclear program. This legislation pre-dates that crisis and is essential regardless of the fate of the nuclear restoration activities. The objective of this proposal is to reduce the likelihood of such crises in the future by placing the day-to-day management of the agency in the hands of a strong, experienced executive officer and by vesting the policy-making powers of the TVA in a more broadly based, representative, responsive body.

WHAT THE LEGISLATION PROVIDES

The fundamental concept is to separate the creation and review of policy from the day-to-day management of the TVA by changing the TVA Board of Directors from full-time to part-time and by establishing a strong, professional chief executive officer for operations--a reflection of current practices in both public and private organizations. For example, the municipal utilities and rural electric cooperatives which are distributors of TVA power are organized in this manner, as are the large power supply organizations elsewhere in this and other democratic societies.

Separating policy-making from management responsibilities makes each group more accountable, and frees management to carry out policies adopted by the Board of Directors.

A larger, part-time Board, consisting of persons with more diverse experience and backgrounds also can provide more checks and balances in the Board's decision-making processes on highly complex, critical issues such as the inauguration of major construction projects or the initiation of potentially controversial new programs.

Freeing the Board of management responsibilities will also allow the Board to give greater attention to long-range planning, establishing the goals of the organization, and assuring that management carries out the agency's objectives.

The experience of other organizations, public and private, indicates that a part-time Board of Directors composed of distinguished citizens can provide thoughtful policy guidance for a large organization such as TVA. Experience of other organizations also has demonstrated that a part-time Board of Directors can attract prominent citizens who have diverse backgrounds useful in formulating policies.

The proposal provides six months for the President to nominate and the Senate to confirm the new Board members. The legislation requires that all nine members of the Board to be appointed by the President, two may come from any State, but seven must come from states within the Tennessee Valley--three from Tennessee, one each from Alabama, Kentucky and Mississippi, and one from either Georgia, North Carolina or Virginia. The ratios are a reflection of the service area and TVA investments in the states.

In appointing members who are required by the TVA Act to reside in the TVA service area, the President is directed to consider recommendations from governors of the states that are in the service area, individual citizens, and business, industrial, labor, electric power distribution, environmental, civic and service organizations.

Board members would be appointed for three-year terms, and no Board member could serve more than three such terms. Some of the initial appointees would have longer staggered terms.

Board members would be paid a stipend of $10,000 per year, plus compensation for days actually engaged in performance of duties as members of the Board. The chairperson could be compensated for up to 80 days of work per year, and the other members of the Board could be paid for up to 60 days of meetings.

After confirmation and installation the new Board would be initially involved in organizational matters. During this period before a new chief executive officer were in place, the logical thing for the Board to do would be to continue present personnel, pay and policies.

In the spirit of the original TVA Act and the belief that a large representative policy-making body will be able to responsively exercise broad general authority, the legislation outlines Board responsibilities in general terms. It is anticipated that the Board will exercise for TVA the responsibilities normally associated with a board of any large, complex organization. For TVA these would include:

a) establish the broad goals, objectives and policies ot the Corporation necessary or appropriate to carry out the provisions of the TVA Act as amended;
b) develop long-range plans to guide the Corporation in achieving its goals, objectives, and policies and provide assistance to the chief executive officer to achieve those goals, objectives and policies;
c) be responsible for ensuring that such goals, objectives and policies are achieved;
d) approve an annual budget for the Corporation;
e) establish a system of salaries, benefits, and incentives for employees;
f) approve the salaries, benefits and incentives for those managers and technical personnel reporting directly to the CEO, and

g) ensure that all activities of the Corporation are carried out in compliance with applicable laws.

Selection of a chief executive officer would certainly be an early priority for the Board and would be one of its most important decisions. Because the needs or direction of the Corporation may change over the years, the Board is given considerable latitude in selection of the chief executive officer, the officer's background, financial interests, and compensation package. Except for officers who would be required to perform governmental duties pursuant to law, such as a treasurer or secretary of the Corporation, the chief executive officer would appoint other managers and employees of the Corporation, subject to Board review. This will allow the Board to review the hundred or so major positions in the Corporation.

The legislation also changes the pay restraints under which TVA has operated. The basic TVA Act prohibits regular employees or officers from being paid salaries greater than that of board members.

The proposal would call for a basic pay ceiling of Executive Level V (now $72,500) but would allow the board to pay up to Executive Level I (now $99,500) for positions where retention or recruitment problems are caused by substantially higher pay for comparable levels of work. This would allow the board to continue, or increase if merited, the salary levels for those managers already receiving more than Executive Level V. Procedures other federal agencies and departments use for establishing retention and recruitment awards could be a guide for establishing such a program at TVA.

The legislation also places a greater value on superior performance and unusually meritorious acts of benefit to the Corporation. Similar programs exist in other parts of the federal government and in private industry. The board could determine the amount of resources to be devoted to these incentives as well as the manner of distribution, that is, on the basis of individual or unit performance or a combination of both depending on which would produce the most efficiency and economy in operations.

The proposal also gives the TVA's Inspector General the same protections, authority and requirements as the Inspectors General in other departments of government. This office should be a useful adjunct to the board as an informed and impartial auditor of the efficiency and effectiveness of the board's policies. The office of Inspector General is not a substitute for the internal controls and program audits which any thorough chief executive officer would establish for management of operations.

page 7 Information

If TVA is to survive, sooner or later the issue of TVA's structure must be addressed. The organizational structure has fundamental weaknesses and these weaknesses have the potential of contributing to flawed policy positions and/or ineffectual management.

While the details of any restructuring will involve considerable debate, the real issues are:

1. Whether the Board of Directors should be broadly-based, representative, responsive policy-making body rather than a body which, at present, is of limited size and has responsibilities for both policy-making and management;

2. Whether the day-to-day management of the agency should be delegated to a strong, experienced executive officer whose position is invested with powers mandated by law, and whose salary is not subject to the present federal pay ceiling, and

3. Whether TVA will have a compensation system that will permit it to attract and retain the highly qualified technical and management personnel that are needed to manage and operate this agency.

The successful operation of an organization as large and complex as TVA demands a strong, experienced chief executive officer who has the authority to carry out policies carefully considered by a sufficiently large Board of Directors consisting of distinguished citizens who themselves have a breadth of experience and background.

This proposal moves significantly in these directions.

Prepared by the staff of
Congressman Ronnie G. Flippo

Background:

TVA BOARD COMPOSITION AND DUTIES

Increases of Regional Responsibilities

A basic change affecting TVA took place in 1959. TVA moved to self-financing, through revenue-backed borrowing.

Vanderbilt Professor Erwin Hargrove has written:

> At first look, it appears that the 1959 self-financing decision freed TVA from Congressional scrutiny and political accountability for its power program....But...the 1959 decision made TVA accountable to the rate payers for the first time in its history. The cost of power and of the construction of new plants was now to be borne directly by the rate payers. Yet, there was no forum in which the rate payers could express their views, except Congress. (Underlining added)

In 1959, then, TVA became basically a regional agency, whose policies directly affected the pocketbook of every citizen in the region. That fundamental change took place about half-way between the agency's creation in 1933, and the present time. But though this drastic change in accountability and responsibility took place nearly a quarter of a century ago, there has been no change in TVA's formal methods of accountability to the people of the region, and to the region's elected leaders.

For example:

* There is no regulation of TVA's wholesale electric rates - which make up more than 80% of the total retail cost of electricity for the Valley's users - by any entity other than a TVA Board composed of policy-maker/managers.

* There is no formal process by which TVA's decisions, sometimes multi-billion dollar decisions, are subject to public review, through hearings or other methods.

* There is no administrative device through which the people of the region are represented in the TVA decision-making process.

* There is no formal device by which the region's Governors comment on TVA actions.

In practice, numerous informal methods are used by the TVA Board to air public opinion. The agency, in fact, has in recent years stepped up its efforts to obtain the views of persons in the region. But - in an era where public participation and organizational responsiveness are the trend of the times - TVA policy-making rests almost totally in the hands of three persons who not only make those policies but manage their execution as full-time agency employees.

It seems appropriate to make the TVA decision process more democratic, more representative of the region so directly affected by the decisions of the agency.

Expanding the role of the people of the region in their agency could strengthen the institution's base for the future. Among the agency's initial national constituencies, the significance of the agency has diminished in priority as other problems have expanded. However, the role of the regional constituency has grown even though the agency has suffered loss of appreciation among many in the service area.

Trends in Corporate Governance

Corporate boards have been "totally restructured during the past decade," according to the 1983 Korn/Ferry International report on Board of Directors. Korn/Ferry indicates the Securities and Exchange Commission and other bodies have applied pressure "to make board members more accountable to the corporation's constituencies." There has been a distinct shift from boards dominated by "inside" directors (those working full-time for the corporation) to the situation in 1983 where the average corporate board has nine "outside" directors for every four "inside" directors. Thus, in 1983 corporate boards have twice as many "outside" directors - those not employed by the corporation other than as directors - as "inside" directors.

This dramatic change, in a relatively short time, has come about (a) to mak the corporate boards more exposed to influences outside the corporation staff, (b) to bring in fresh ideas, and informed judgment from executives from other companies, and (c) to make the boards more representative and accountable.

Yet the TVA Board has remained one made up entirely of full-time agency employees ("inside" directors), with no outside representation, even on an advisory board basis. While corporate America made its boards more democratic, the Congress has not restructured the TVA Board which has remained as it had bee for half a century, controlled by full-time managers who also served as policymaking directors.

The present trend in corporate governance to expand the participation of "citizen" directors is a clear signal of yet another type of institution which has moved toward more open and democratic forms and procedures during the past two decades. While scholars have debated for centuries the advantages and disadvantages of more democratic forms, it is difficult to justify exclusion of the people who pay the bill for the TVA from a greater role in establishing the policy for the direction of the agency.

Over the years a number of different types of arrangements have been proposed to make the TVA more responsive or more accountable to the people of the region. Most would have reduced the ability of the Board to respond by transferring some of the Board's authority to another body such as an advisory commission, the Federal Energy Regulatory Commission, a regional energy council, the individual states, the Congress, or the Office of Management and Budget.

Such proposals would have altered the basic idea of TVA - a corporation clothed with the power of government but possessed of the flexibility and initiative of a private enterprise.

In any change of the Board, the most desirable arrangements would:

1. Maintain the independence and flexibility of the board to make financial arrangements for the borrowed funds for the power system and to advance the purposes of the agency as outlined in the TVA Act.

2. Create clear lines of responsibility in operations to improve the efficiency and to better fix accountability.

3. Increase the participation of the people of the region in establishing of policy and in review of the actions of the agency.

Prepared by the staff of
Congressman Ronnie G. Flippo

SUMMARY PAGE

Discussion Paper:

THE TENNESSEE VALLEY AUTHORITY BOARD: WHY THREE FULL-TIME MEMBERS?

History of the development of the TVA board's composition and role - from 1919 to 1933 - indicates these main trends:

1. Why the corporate form for the Tennessee Valley Authority? The idea that the "Muscle Shoals Corporation" be a government corporation came from the Army, and from its experience with the Panama Railroad Company, a government corporation. Senator George Norris picked up this concept, because it fitted his goal of keeping the agency independent.

2. Senator Norris, in earlier bills, seemed to favor a three-member, full-time board of directors. However, from 1928 to 1933, the Norris bills shifted to support for a part-time board and a chief executive officer/general manager. In 1933, Senator Norris made clear his support for a full-time board, with the board authorized to organize the agency in any form it chose.

3. The House (and particularly the House Military Affairs Committee) consistently pushed for a strong chief executive officer and a part-time board. The House seemed to believe a strong chief executive officer meant more business-like operation of the corporation, and visualized TVA in terms of a private business corporation.

4. The conflict was not settled until the final House-Senate conference committee sessions in May, 1933. By that time, both Houses favored a full-time board, but the House still called for a chief executive officer "who has demonstrated his capacity as a business executive". The conference committee accepted the Senate (Norris) language, calling for a three-member, full-time board, with no specific mention of the position of general manager. The conference report (H. Rept. 130) - in outlining how disputed points were settled - did not refer to the House-Senate differences concerning board composition and its role in administering the work of the agency.

5. In summary, the conference committee agreement reflected the usual give-and-take over disputed issues, with the House willing to concede this point to Sen. Norris and the Senate conferees. There is no specific evidence that this was a matter of intense disagreement between the conferees, nor that the decision in favor of a full-time board of directors "was not the deliberate result of careful congressional meditation on alternatives". In fact, prior to 1933, the Congress twice approved (and Presidents twice vetoed) bills for a part-time board and a chief executive officer/general manager. Not until the final deliberations on the "Muscle Shoals" measure, in late April and May of 1933, did the bills focus on provisions for a full-time board, and no mandated position of general manager.

This issue, while important, was not highly controversial, nor exhaustively debated. Indeed, the final conference report did not even refer to the decision of the conferees on this matter.

The TVA concept was far more important to those who labored to establish the agency than the size and nature of the TVA board.

6. The Congress has the responsibility to review the board's composition and methods of operation.

Discussion Paper:

THE TENNESSEE VALLEY AUTHORITY BOARD:

WHY THREE FULL-TIME MEMBERS?

How did the Tennessee Valley Authority come to have a board of directors made up of three full-time members, and with no statutory provision for a chief executive to manage the corporation?

In fact, why was the agency set up as a federal corporation?

At the end of World War I, the federal government was building two nitrate plants and a dam at the Muscle Shoals site on the Tennessee River in Alabama. The nitrate plants never produced nitrates for munitions in World War I, but the National Defense Act of 1916 - which authorized construction of the nitrate plants and the dam - provided for peacetime use of the nitrate plants to manufacture fertilizer.

Arthur G. Glasgow, as fixed nitrogen director under Secretary of War Newton D. Baker, tried to interest fertilizer companies in taking over the nitrate plants, but without success.[1]

So Glasgow proposed a government corporation, under a board of directors, to take over all fixed nitrogen assets of the War Department. (The War Department was familiar with the corporation approach from its experience with the Panama Railroad Company.)

Glasgow drafted legislation which was recommended to Congress by Secretary of War Baker in 1919. Bills were introduced, by request, by Senator James Wadsworth of New York, chairman of the Senate Military Affairs Committee (S. 3390), and by Rep. Julius Kahn, chairman of the House Military Affairs Committee (H.R. 10329).[2] The proposal called for:

1. A government corporation, the U.S. Fixed Nitrogen Corporation, with 3 to 11 board members appointed by the Secretary of War, who was to be ex officio chairman of the board.

2. A board of directors that was to "perform the duties usually pertaining to the office of directors of private corporations, and such other duties as are prescribed by law". (Underlining added).

Thus, the corporate model was the basis for the proposal in 1919, and the precedent for most Muscle Shoals bills until 1933, when the TVA Act was passed. The Wadsworth-Kahn proposal passed the Senate in 1921, but never reached the House floor.

The first Norris bill, 1922

On July 8, 1921, Henry Ford made his offer to buy the nitrate plants and accompanying steam plants. By this time, Muscle Shoals legislation in the Senate had been referred to the Committee on Agriculture and Forestry, headed by Senator

---

[1] C. Herman Pritchett, in The Tennessee Valley Authority, a Study in Public Administration (Chapel Hill: University of North Carolina Press, 1943), p. 7, explains why private companies were not interested. "...the first plant was an admitted failure and the second would require extensive alteration to fit it for commercial production of fertilizer."

[2] Text of bill at 60 Cong. Rec. 812-13 (1920)

George Norris of Nebraska. (In the House, the issue remained under jurisdiction of the Military Affairs Committee.)

Norris did not like the Ford proposal, or others for purchasing or leasing the facilities at Muscle Shoals.

Norris, in introducing his first Muscle Shoals bill on April 10, 1922,[3] "followed the Glasgow bill" in providing for a government corporation - the Federal Chemical Corporation - to take over the properties and utilize them for fertilizer and power production.[4]

Norris "appeared to accept the corporation idea unquestioningly,"[5] thus making a fundamental decision that led to TVA's establishment as a federal corporation in 1933. But Norris made a significant change in the Glasgow bill. He proposed a three-member full-time board of directors, appointed by the President with the advice and consent of the Senate, with no fixed term of office, and removable by a concurrent resolution of the two houses of Congress. So the two basic ideas - corporate status, and a three-member full-time board - were incorporated in Senator Norris's initial Muscle Shoals bill, S. 3420, in 1922.

In 1922, at hearings before the Senate Committee on Agriculture and Forestry, O. C. Merrill, executive director of the Federal Power Commission, told Senator Norris:

> I don't know whether your measure proposes that the three directors shall have equal authority in management of the business. If so, I would doubt its advisability. I think there should be a group of men, whether three as proposed here or more, whose business it shall be to determine the general policies, the general lines under which the operation shall proceed, etc., but that when you get down to actual administration you should concentrate the authority in an individual and make that individual responsible to the group that establishes the policies.[6]

Senator Norris assured Mr. Merrill that such was his idea, but he did not revise his Muscle Shoals bills to clarify the board's relationship to the administration of the corporation.[7] Norris's S. 3420 specified three directors, at salaries of $7,500 per year, and each director "shall give his entire time to the business of said corporation".

---

[3] It is an interesting coincidence that President Franklin D. Roosevelt sent to Congress his message recommending creation of a Tennessee Valley Authority on April 10, 1933, eleven years to the day after introduction of Senator Norris's first Muscle Shoals bill.

[4] Pritchett, p. 10

[5] Pritchett, p. 26

[6] Quoted in Pritchett, p. 152

[7] Pritchett, p. 152

Norris bills, 1924 to 1928

In 1924, Senator Norris introduced a bill, originally S. 2372, similar to the 1922 bill (S. 3420) in provisions relating to directors. It did, however, set up a Federal Power Corporation, not a Federal Chemical Corporation, symbolizing the shift in emphasis that had already taken place in the Muscle Shoals struggle. This second Norris bill actually became an amendment to H.R. 518, the McKenzie bill, on the Senate floor (68th Congress, 1st session).

In 1926 (69th Congress, 1st session), Norris introduced S. 2147, to set up a Federal Power Corporation, with the same provisions relating to directors, except proposed salaries were boosted to $10,000 a year.

In 1927 Norris completely switched his approach, in an attempt to reach a compromise version that could be enacted. His S.J. Res. 163, (69th Congress, 2nd session, Senate report 1633) did not call for a corporation. Instead, it provided that the Secretary of War would handle power facilities at Muscle Shoals, and the Secretary of Agriculture would handle fertilizers.

None of these bills - from 1924 through 1927 - passed the Congress.

The 1928 bill, passed but vetoed

In late 1927 Senator Norris introduced S.J. Res. 46, similar to the earlier bill (S.J. Res. 163) that provided for no corporation, and for the Secretaries of War and Agriculture each to take a part of the Muscle Shoals operations.

This bill passed the Senate in March, 1928, but was drastically amended by the House. The House bill set a new pattern that was to be generally followed for about five years - until President Franklin Roosevelt's April 10, 1933 message to the Congress concerning creation of a TVA. The House provisions:

- A government corporation, the Muscle Shoals Corporation of the U. S., to operate the facilities at Muscle Shoals.
- A five-member, part-time board, with no more than 3 members of the same political party; directors to be paid $50/day for no more than 100 days per year, after the first year.
- A chief executive officer (general manager) appointed by the board, which "shall select a man for such appointment who has demonstrated his capacity as a business executive".
- General manager to be named for a 10-year term, with the combined salaries of the general manager and two assistant general managers (power and fertilizer) not to exceed $50,000.

The conference report, passed by both houses on May 25, 1928, accepted the House provisions, except that the number of directors was reduced from five to three.

During Senate floor debate on the conference report on May 22, 1928, Senator Norris said of the differences between the House and Senate versions:

> The method of operation, either through a corporation as is set up by the House amendment or through the two Secretaries of War and Agriculture, is, in my judgment, immaterial.

> There may be differences of opinion as to which is the better method. The provisions, however, as to the management, and so forth, are practically the same, with the exception that it is necessary, of course, under the conference bill to provide for the machinery of the corporation, its appointment, and so forth.[8] (underlining supplied)

During that same floor debate, Senator Norris explained why his bill in 1928 did not include requirements for a government corporation.

> In the first two or three bills that I introduced at the beginning of the Muscle Shoals fight I myself provided for a governmental corporation for the management of the property ....
>
> One of the reasons why in the joint resolution passed by the Senate a corporation was not provided for was because I thought when I prepared it that the business that would have to be done could be more economically done without having so much overhead.[9]

S.J. Res. 46 was pocket vetoed by President Calvin Coolidge in 1928.

The 1930 bill, passed but vetoed, again in 1931

There was no action on Muscle Shoals legislation for more than a year - until May, 1929. The reason: President Coolidge's pocket veto had raised a constitutional question about whether the ten-day limit allowed the President for vetoing an act applied to the adjournment of a session of Congress as well as the final adjournment of a Congress. On May 27, 1929 the Supreme Court ruled President Coolidge's pocket veto valid.

The next day Senator Norris introduced S.J. Res. 49, with virtually the same provisions as the vetoed bill.

The Senate passed the Norris bill - his sixth Muscle Shoals bill - on April 4, 1930. The House passed a different version on May 28, 1930, but the second session of the 71st Congress ended before conferees could settle the differences between the two measures. It was not until February, 1931 - during the third session of the 71st Congress - that the conferees agreed, and both houses approved the conference report.

S.J. Res. 49 had provisions identical to the vetoed 1928 measure concerning board composition and the role of a general manager:

- A three-member, part-time board
- With "the general control and management of the corporation... vested in a general manager...appointed for a term of 10 years, but...subject to removal by the board for cause."[10]

---

[8] Cong. Rec., 70th Congress, 1st session, p. 9466, May 22, 1928

[9] Ibid.

[10] Senate report no. 19, 71st Congress, 1st session, in Cong. Rec., p. 6411, April 3, 1930

President Herbert Hoover, in a strong veto message on March 3, 1931, turned down the bill, marking the second veto of a Muscle Shoals bill in the late 1920's.

Thus, in the two major versions of the Muscle Shoals legislation prior to 1933 - and the only versions to pass both Houses of Congress and reach the desk of the President - the corporation was to operate like this:

- Policy direction by a part-time, three-member board, with six-year terms, to be paid $50 per day when on duty, with maximum service of 100 days a year after the first (organizational) year;
- "General control and management" by a general manager, named by the board for a 10-year term, with authority to name two assistant general managers, subject to board approval.
- The general manager must have "demonstrated his capacity as a business executive".
- The board empowered to elect "officers, agents and employees, but with the general manager employing, with board approval, all other agents, clerks, attorneys, employees, and laborers".[11]

Under this approach - twice approved by the Congress - "it was made clear that the administrative control of the corporation was to be in the hands of the general manager and his assistants, with the board functioning purely in a policy-forming role."[12]

Muscle Shoals bills, 1932

On December 9, 1931, when the 72nd Congress convened, Senator Norris introduced S.J. Res. 15, containing the provisions of the bill vetoed by President Hoover. The Senate Committee on Agriculture and Forestry approved the bill, but it did not reach the Senate floor.

In the House, meanwhile, there were several Muscle Shoals bills introduced, including a measure by Rep. Lister Hill of Alabama (H.R. 11051) that was approved by the House on May 5, 1932. The bill was referred to the Senate Committee on Agriculture and Forestry, where it died with the 72nd Congress.[13]

Concerning the board/general manager relationship, these bills generally followed the pattern of earlier years, with a part-time board and a strong general manager.

The TVA Act of 1933

With the inauguration of President Franklin D. Roosevelt in 1933, the debate over "the Muscle Shoals issue" entered a new stage.

---

[11] Cong. Rec., 71st Congress, 1st Session, p. 6406, S.J. Res. 49

[12] Pritchett, p. 152

[13] Judson King, pp. 180-182

On March 9, 1933, when the new (73rd) Congress convened, bills were immediately introduced by Senator George Norris (S.J. Res. 4) and Rep. Lister Hill (H.R. 1609). These bills - introduced a month before President Roosevelt's message to Congress urging a creation of a TVA, and only about two months before the TVA Act was passed - are similar. It is interesting to see the position of these two key sponsors of TVA legislation, prior to the President's message to Congress.

* Norris and Hill agreed on a three-member policy board, with six-year terms. Differences re the board were (a) Hill's bill spelled out that no more than 2 board members could be of the same political party, and (b) Norris seemed to have swung over to support for a full-time board (board members were to serve not more than 250 days a year, at $30 per day), while Hill remained in favor of a part-time board (not more than 100 days a year, after the first year, at $50 per day).

* Norris and Hill agreed on a strong general manager who has "demonstrated his capacity as a business executive". The general manager was to be a ten-year board appointee, with two assistant general managers, and a maximum combined salary of $30,000 for the three executives.

* Norris and Hill agreed on a Muscle Shoals Corporation of the U.S.

After FDR's message of April 10, 1933

The day after President Roosevelt's April 10 TVA message to Congress, a number of TVA (Muscle Shoals) bills were introduced.
In general, they followed two patterns:

1. The Norris bill (S. 1272), introduced on the House side by Rep. John Rankin (H.R. 4883). It would establish a Tennessee Valley Authority, with
   (a) Three full-time directors, with 15-year terms, and with the President naming the chairman; and
   (b) No reference to a general manager

2. The Hill bill (H.R. 5081), matched by Rep. McSwain (H.R. 4859) and Rep. Almon (H.R. 4860). It would also establish a Tennessee Valley Authority, with
   (a) Three full-time directors - no more than two of the same political party - with 15-year terms, with the directors choosing a chairman;
   (b) A strong general manager, as chief executive officer, responsible to the board "for the efficient conduct of the business of the Authority", chosen for demonstrated "capacity as a business executive", and serving at the pleasure of the board. Also, two assistant general managers, appointed by the general manager with board approval.

The essential difference between the Norris and Hill bills on the board/manager issue was that Norris omitted reference to the general manager's position, while the Hill bill continued the language generally followed since 1928 - a strong business-type chief executive responsible for "the efficient conduct of the business of the Authority". Norris had not specified the general manager position in earlier (1922-1927) bills, but had included the strong general manager requirements in bills since 1928.

Rep. Almon, who represented the Muscle Shoals area and was a sponsor of the TVA bill, said during floor debate (Cong. Rec., p. 2194, April 22, 1933):

> I believe the President will appoint a board of directors of ability and experience for the Tennessee Valley Authority and the board will select a general manager of experience and ability, and the administration of this act will be a great success. (underlining added)

When the House Military Affairs Committee favorably reported the Hill bill (H.R. 5081), the committee report said:

> The general manager will undoubtedly be a man of wide experience and of strong character....the board shall select only its limited clerical staff, and all other officers, agents, and employees will be selected by the general manager.

The House report (no. 48, to accompany H.R. 5081, 73rd Congress, 1st session) discussed the important role to be played by the board of directors:

> The board of three members should not only be sound and experienced men of affairs, they should not only be soundly educated and widely traveled and well-read men, but they should be men of constructive vision, to seek to fit the future into the form of the present ... For such position of trust and responsibility, undoubtedly the President will search the Nation over for the right men to whom to entrust not only this vast investment of money but this great responsibility, not only to the people of that section of the country but to the people of the whole Nation.

Conference Committee report[14]

The report of the conference committee did not mention the settlement of the House-Senate differences over the board/general manager issue. The conference report did, however, contain this language:

> We are fully persuaded that the full success of the Tennessee Valley development project will depend more upon the ability, vision, and executive capacity of the members of the board than upon legislative provisions.[15]

Reference to the "executive capacity" of members of the board may indicate that the conferees saw the three-member board as serving in both policy and administrative roles.

---

[14] House report No. 130, conference report to accompany H.R. 5081, 73rd Congress, 1st session, May 15, 1933

[15] Ibid., p. 19

The House version: generally, the Hill bill (H.R. 5081) as introduced, except that the 15-year board terms were reduced to nine years. The bill called for a three-member, full-time board, with not more than two members of the same political party; and a chief executive officer, appointed by the board, to be a person "who has demonstrated his capacity as a business executive", along with two assistant general managers, one for power, the other for fertilizer.

The Senate version: generally, the Norris bill (S. 1272) as introduced, except that the 15-year board terms were reduced to nine years. The Norris bill called for a three-member, full-time board, which would appoint the staff, including, presumably, a general manager. There was no mention, however, of the position of general manager.

The conference committee agreed on the Senate language.

TVA in Operation

But once TVA was in operation, there were problems with the board's functioning. The board went through two stages in 1933:

Stage I. As Herman Pritchett pointed out, the Act left the board free to decide its policy/administration arrangement, with three alternatives:

- stay out of administration, and appoint a general manager;
- give administrative authority to one board member; or
- have all three directors involved in administration.

The board decided in June, 1933 to designate chairman Arthur Morgan as general manager, with duties "customary to the General Manager of a private corporation..."[16]

The board's decision was, in effect, ratification of the existing arrangement, since Arthur Morgan had taken a strong leadership role. He had, in fact, been selected by President Roosevelt to be TVA chairman before the Act was passed, had attended meetings of the conference committee, and said he had "made approximately one hundred changes in the draft of the TVA bill".[17]

Said Pritchett:

> Giving administrative authority to one member of a board in this fashion, however, is likely to work poorly under the most favorable circumstances. It may succeed if the administrative member is a very strong personality and the other directors are weak or have only part-time positions.[18]

Stage II was not long in arriving.

In August, 1933, the other two directors submitted a revised plan to chairman Arthur Morgan: each director was to take over a sphere of activity within which he was to operate as an administrator. Thus, each director was to act in two jobs - as a member of the policy-making board, and as administrator of one part of the TVA multipurpose program. This approach was, said Pritchett, "an unorthodox plan of administrative organization", and was

---

[16] Pritchett, p. 152

[17] Arthur Ernest Morgan, The Making of the TVA. Buffalo: Prometheus Books, 1974, p. 18

[18] Pritchett, p. 153

"esentially an expedient".[19]

Arthur Morgan, in a book published 40 years later, tells of being asked by a member of the House-Senate conference committee on the TVA legislation whether Morgan would prefer to be a member of the board, or serve as a single administrator.

> The question surprised me, and I hesitated to answer. In his talk with me President Roosevelt had assumed that there would be two other directors, and I had accepted that assumption without much further thought. The congressman's question, however, forced the matter to my attention again, and I quickly reviewed my impressions on the subject. I had quite clear ideas as to what should be the policies of the Authority, but on the other hand, I thought that three good men serving as equals could greatly strengthen one another. I wondered whether administration under a single individual would have public acceptance or whether it would be better for its policies to have the support of a board. On the spur of the moment, I told the committee that I believed it would be better if the policies of the Authority were in the hands of a board of about three members.[20]

By 1936, the situation had become worse, partly because of the poor relationships between Arthur Morgan and David Lilienthal. So in May, 1936 the board created the office of general manager. But, according to Pritchett, the transition was a slow one, taking a year to work out. In June, 1937 the board - over chairman Arthur Morgan's protest - made the general manager the Chief Administrative Officer, to whom all departments and their administrative officers were to report.[21]

Chief Administrative Officer named

Thus, four years after the TVA began operations, the agency established the position of general manager as the chief administrator. But establishing a chief administrator did not deal with the question of whether members of the board should be full-time or part-time.

Herman Finer, writing in 1944 on "TVA: Lessons for International Application", was clear about the question:

> Whether a full-time board of directors was, or is, necessary is doubtful. It was not the deliberate result of careful congressional meditation on alternatives....Experience of the first eight years of the TVA's operation....certainly raises the question

---

[19] Pritchett, pp. 156-157

[20] Morgan, The Making of TVA, p. 19

[21] Pritchett, p. 165

> whether a board of three men each with equal authority could not be better replaced with a single administrator.[22]

Finer outlined various alternative approaches:[23]

1. A single administrator responsible only to the President (or other superior control), and unaided and unaffected by any colleagues, advisory or executive, sharing his responsibility;
2. A single administrator with the executive power and responsibility, but required to consult an advisory board;
3. A single administrator subject in all things to direction and control by the board of directors; or
4. As the case now is with TVA, fully collective administration, yet with the majority of two directors able to overrule the third, even if the third were chairman.

The joint congressional committee investigating the TVA in 1938 examined the question of the board's composition and method of operation.

The Minority Report of the joint congressional investigation said it would be better to have five part-time directors, who would hire a general manager, and would act as the directors of a business corporation. But the Majority Report said the range of interests to which TVA must give attention was too large for a single administrator, especially since TVA was moving along novel and untried paths.[24]

But Finer, writing in 1944, six years after the joint congressional investigating committee report, said:

> *It is difficult* at the operating stage at which the TVA has arrived, as distinct from the earlier policy-forming stage, *to discover what a full-time board does that a part-time board could not do.*[25] (underlining supplied)

---

[22] Herman Finer, *TVA: Lessons for International Application*. Montreal: International Labour Office, 1944, p. 130

[23] *Ibid.*, p. 130

[24] Quoted in Finer, p. 130

[25] Finer, pp. 130-131

State of Alabama
House of Representatives

MONTGOMERY, ALABAMA

Resolution

HJR 112

By Representative Richardson

ENDORSING THE IMPROVEMENTS OF THE MANAGEMENT STRUCTURE FOR THE TENNESSEE VALLEY AUTHORITY

WHEREAS, the Tennessee Valley Authority in the past was of great usefulness to the people of North Alabama by taming the Tennessee River, helping bring electricity to remote rural areas, encouraging economic development through the availability of low-cost electric energy for industry, developing of new fertilizers to increase farm production, and fostering of unified resource development activities; and

WHEREAS, the future economic well-being of the people of North Alabama depends on the efficient and economical operation of the Tennessee Valley Authority which requires the highest degree of strong, experienced, professional management for the authority; and

WHEREAS, the future direction of the Tennessee Valley Authority requires sensitivity and responsiveness to the needs of the people of the entire Tennessee Valley service area; and

WHEREAS, legislation has been proposed in the U. S. Congress to provide the Tennessee Valley Authority with a broadly-based, representative, responsive policy-making Board of Directors; and

WHEREAS, the same legislation would enable the Tennessee Valley Authority to employ a strong, experienced executive officer to operate the corporation in the most efficient and economical manner; now therefore

BE IT RESOLVED BY THE LEGISLATURE OF ALABAMA, BOTH HOUSES THEREOF CONCURRING, That we hereby endorse the improvements for the Tennessee Valley Authority's management structure as called for in H.R. 2025, 100th Congress.

BE IT FURTHER RESOLVED, That Alabama's U. S. Senators and U. S. Representatives are hereby urged to sponsor H.R. 2025 or similar legislation and work for the approval of the proposal in the U. S. Congress.

RESOLVED FURTHER, That copies of this resolution be conveyed to members of the U. S. Congress from the State of Alabama and the other states served by the Tennessee Valley Authority.

IN WITNESS WHEREOF, I have hereunto set my hand and have caused the GREAT SEAL of the State of Alabama to be affixed by the Secretary of State at the Capitol in the City of Montgomery on this the 23rd day of June, 1987.

Guy Hunt
GOVERNOR

Glen Browder
Secretary of State

TESTIMONY OF CONGRESSMAN JIM COOPER

Thank you, Mr. Chairman, for giving me the opportunity to appear before you today. I will be very brief.

I would first like to praise the hard work that Congressman Ronnie Flippo and Governor Baliles have performed in their recommendations for restructuring the TVA. Both men are outstanding public servants whose pioneering efforts on behalf of TVA will go down in agency history. The ratepayers of the Valley owe them a debt of gratitude for having tackled so difficult a subject, and having made such important recommendations.

I oppose much of what they are recommending, not so much because I disagree with their goals, but because I disagree with their timing. To me, the first priorities are fixing the broken nuclear plants, particularly Sequoyah, and confirming the new Chairman of the TVA Board, Marvin Runyon. Anything that distracts from these objectives is not helpful to the people of the Valley.

I concede that it is certainly possible to discuss future restructuring alternatives without hampering any of TVA's current work. But we should always bear the more important goals in mind.

The current restructuring proposals also seem to me to be poorly timed because the new Board Chairman, if he is confirmed by the Senate, deserves time on the job before we change that job for him. We have a top-flight manager coming into TVA, let's give him a chance to make his recommendations after a year or two have passed.

Finally, I continue to be concerned that it is risky to "open up the TVA act" during the Reagan administration, when there are more enemies of TVA in high places than ever before in the agency's history. Particularly at a time when we in Congress are being forced to sell precious government assets, it seems dangerous to be revamping TVA.

As for the merits of the proposals before you, the most important in my eyes is lifting the pay cap, at least for the top nuclear employees. I hope that we may study this important issue very soon and resolve it at the congressional level.

The other proposals, while important, are not as urgent. The TVA Board, with its existing authority, has already implemented a number of important reforms without calling on Congress to "open up the act." Other reforms could be implemented as well. We can profitably use the time between now and the next administration to study the remaining proposals to see how they can best be implemented under a new, and, I hope, friendlier, administration.

to sum up, what we have here are procedural proposals designed to make TVA look like a typical American corporation. While that management chart works for many corporations, it does not work for all. Before we change the unique nature of TVA, an agency that has an astonishing record of success despite its recent nuclear problems, let's concentrate on what's really important: fixing the plants, and finding quality pesonnel. Only the pay cap issue has any real bearing on these issues.

To use an Alabama football analogy, Bear Bryant was often criticized for using a complicated, old-fashioned offense, which even sounded dumb, the "wishbone" offense. but it worked, and worked well, because of quality players and quality coaching. TVA's unique management structure can work well under the same conditions. And a new, very talented player is just coming on the field.

Mr. NOWAK. Our next witnesses are from the Tennessee Valley Authority, Mr. Charles H. Dean, Jr., Chairman of the Board of Directors; John B. Waters, Member Board of Directors; Mr. William F. Willis, General Manager.

We will make the full text of your statements part of the record. You may proceed as you so desire.

TESTIMONY OF CHARLES H. DEAN, JR., CHAIRMAN, BOARD OF DIRECTORS, TENNESSEE VALLEY AUTHORITY; JOHN B. WATERS, MEMBER, BOARD OF DIRECTORS; WILLIAM F. WILLIS, GENERAL MANAGER; AND EDWARD S. CHRISTENBURY, GENERAL COUNSEL

Mr. DEAN. Mr. Chairman, my comments will be brief. For those of you who don't know me, I am Charles Dean. I am a native Tennessean. I have been Chairman of TVA for six years. I am a professional engineer.

I have had almost 30 years experience in the utility business. I have never ordered a nuclear reactor in my life. I have inherited 17 of them. I have been involved in canceling eight of them and for the past three years I have been trying to get restarted the ones shut down for a variety of reasons. We have had problems at TVA. I am not here to gloss them over. With me is John Waters and William Willis. We appreciate this opportunity to provide testimony. As I said, mine will be short. I will file the rest of it for the record.

I would like to emphasize one or two points. My personal opinion is if nothing is done to permit the hiring of qualified executives at market rates, it doesn't make much difference whether TVA is under the control of a committee, as is the present situation, or a single chief executive officer appointed by a part-time board.

We have asked Congress for help in solving the pay cap problem many times since I have been Chairman of TVA. As board members, we have never asked for raises for ourselves, but only for permission to pay a few executives more than we make. Our jobs as directors are very similar in some respects to members of Congress.

There is a certain amount of honor and prestige attached to it. We understand we can never expect to make the kind of money the head of a huge corporation makes. We are competing in the open market, however for people to run nuclear plants and programs, power experts. The only way we have been able to get around the pay cap in recent years is to go out and made contracts.

We found out we can make contracts legally with people to come in and be contract managers. We are paying them up to a thousand dollars a day. But that is not a permanent fix in my opinion. The problem needs to be addressed.

I went on in my statement to comment that having said that, it is my personal opinion and not a corporate position—we have no corporate position on the Flippo bill—that the plan proposed by the Southern States Energy Board, which you will hear more about, has considerable merit.

That committee, chaired by Federal Express Chairman Fred Smith, proposes a chief executive officer, and a nine-person, part-time board. I feel this is similar to the way most large corporations are run. It has been proven. I think it would be a good plan for TVA in the long run.

Ontario Hydro has been reorganized along those same lines. I talked to people from Ontario Hydro this week and they say their system is very successful. It took almost a year of intensive discussion and work to work out a conversion from an organization run by a committee to one run by a CEO with a larger board. That is understandable because such fundamental changes should not be done in haste.

If there is something I want to emphasize today, it is let's not get in a big hurry and make mistakes in an effort to change TVA. It is not that "broke." I can assure you that when I left this morning—I live on the river—I looked out my back window. There were barges moving up and down the river. When I went in the john and flipped the switch the lights went on. We have no panic problems down there.

We have nuclear plants we have trouble fixing, but there is no desperate situation that calls for rapid and hasty action that we might live to regret later on.

If the TVA Act is changed, the duties and responsibilities of the members of the board must be clearly spelled out to assure that board members do not interfere in the proper actions of a chief executive officer. I do not believe restrictive requirements as to where these people live make that much difference.

There have been some comments there is a new board member about to come on. He is Marvin Runyon, a distinguished Tennessee citizen. He is an experienced executive with considerable experience in the automobile business.

It has been said by some people that I have sour grapes about Mr. Runyon's appointment. Let me tell you, I am tickled to death to see Marvin Runyon on the TVA Board. He would be a good CEO if we were hunting a CEO. That is his background.

The Act makes it clear, however, that Mr. Runyon will, as Mr. Flippo pointed out, become a member of the committee which currently runs TVA. As such, no matter how much we play around with rules and regulations, the committee of three cannot do anything but accept its responsibility as the office of the chief executive.

We will have to continue to do that as long as the Act is written the way it is. I have no problems also with the feasibility of the TVA Act as it is presently written. It has operated well for over 50 years and generally been successful. I would point out if there are changes to be made, I have certain feelings about that.

With that, I will turn this over to John B. Waters, Director of TVA.

Mr. WATERS. I am grateful for the opportunity to take part in this hearing and to present my personal views on the structure of TVA's Board of Directors and the appropriateness of changing that structure at this time. TVA has in the past gotten a lot of advice, as most of you know. I appreciate the advice and interest of anyone interested in TVA.

The structure of the three-member, full-time board has been questioned, debated, and investigated since TVA's creation as a federally owned corporation.

When TVA was established in 1933, what we may generally think of as the "modern" corporate board with part-time directors was not a new concept. In fact, that model had existed in the private sector since the 1800's and had already been adopted by many of the 90 or so government corporations that existed at the time of TVA's founding.

Both houses of Congress and President Roosevelt agreed that a typical corporate governance structure was not what TVA needed, and succeeding Presidents and Congressional leaders who have examined the pros and cons of TVA's Board structure have not seen fit to change it.

Over the years, the most frequently suggested change in TVA's board structure has been to enlarge the board and have members serve on a part-time basis.

Proponents have claimed that a larger board would be more representative of diverse interests within the region and could be more accountable to the public.

Opponents of a larger, part-time board have claimed that such a change may well result in a reduction of individual commitment to the board and the agency. They point out that board members' leadership and motivation are ultimately more important than the number of people on the board.

And they caution that—by diminishing each director's responsibility and incentive to carry out the complex tasks—the board could become a "rubber stamp" for a strong executive and an unwieldy bureaucracy.

Even though enlarging the Board has been frequently suggested through the years, other suggestions have been made to move TVA in just the opposite direction, to reduce the number of directors to one.

So if we are looking for a consensus about the proper structure of governing boards, either in history or among students and practitioners of public administration, it may be an endless search. Academic researchers who have studied the size and structure of Federal corporate boards are also divided on which structures work best.

Maybe the only definitive statement we can make is that government-owned corporations have functioned successfully—and unsuccessfully—with both full-time and part-time boards.

I believe that current criticism of TVA's board structure and calls for reform should be examined in light of that history. And I am yet to be persuaded that making changes in organizational structure is necessarily the same thing as making improvements in performance.

I think we can all agree that TVA's performance is the central issue before us today, specifically the issue before us, the performance of TVA's nuclear program.

We are not here today discussing organizational changes because six of TVA's fossil power units rank among the most efficient in the nation.

We are not here because TVA's National Fertilizer Development Center keeps TVA a world leader in technology transfer and fertilizer development. And we are not here because TVA manages what is often cited as the best-run river and reservoir system in the world. No one here is more concerned than I am about improving TVA's nuclear program and seeing that it sets positive records of performance.

That is why this board initiated a nuclear recovery program designed to bring those plants back into full operation and full compliance with the highest standards of safety and performance.

Mr. Nowak. Would you suspend just a moment? We have a vote on the floor and will have to stand in recess for approximately 10 minutes. We will pick up after the last period you just read.

[Recess.]

Mr. Nowak. The Subcommittee will please come to order.

We will return to the testimony of Mr. Waters.

You may pick up where you left off.

Mr. Waters. Thank you very much, Mr. Chairman.

I was just beginning to talk about our nuclear power system and what went wrong, and why, and some of the problems we have had with our nuclear power system. With the constraints placed by the Federal pay cap, what we have found was we simply could not hire or retain nearly enough senior nuclear managers with the required skills and experiences to manage a program as large as TVA's.

TVA's nuclear program is the second largest in the country. As you have heard, the pay cap remains a critical concern.

Salary surveys of top managers employed at neighboring utilities confirm what we have already learned from many exit interviews with our own people.

Mr. Chairman, the free market has absolutely no respect for the Federal pay cap. It is ironic that this problem has become so acute at a time of deregulation and relaxation of some government restrictions affecting private industry. Federal agencies are being advised to run government "more like business."

A large part of TVA's business is running a power system that pays its own way without one penny of subsidies from the taxpayers. Yet, TVA is being required to run that power business "more like government." TVA has encountered other serious problems with its nuclear program in addition to the pay cap, and I don't minimize those problems. But is hard to attribute them individually or collectively to the size of the TVA board.

The nuclear power industry is dominated by firms that have part-time corporate boards. Some of these private companies are having good experiences, and we are benefiting from building closer working relationships with them. Other companies with large part-time boards are experiencing major nuclear problems.

There just does not seem to be any logical connection between corporate board size and the success of nuclear programs. One thing is certain about the current structure of TVA's three member board.

Each new appointment has the effect of reconstituting the board by providing a new mixture of strengths and a new perspective on issues. Later this week, I understand hearings will be held on the confirmation of a man who has been nominated as TVA's next board member and chairman, Marvin Runyon.

Marvin Runyon's nomination has attracted national attention as well as tremendous anticipation within TVA and the valley region. As a leader in the private sector he has earned a remarkable reputation for his effectiveness as a manager.

I submit to you that he should be given the chance to put his considerable talents to work at TVA without the complication of a simultaneous reorganization of the board. I think TVA should be given a chance to see the results of the nuclear recovery program and other significant changes this board has made over the past two years. Among other things, we have taken the controversial but absolutely necessary step of bringing in some of America's top nuclear managers as contract employees to help restore our nuclear program.

We have established a highly professional office of the inspector general that has already proved to be of tremendous value. We have instituted new cost containment efforts in the Office of Power and we have taken a number of steps to improve the way TVA does business.

We need time to let these initiatives work and we need time to judge their effectiveness. I am not against change, Mr. Chairman. In my three years on the TVA Board, I have proposed many changes.

I think the changes I just mentioned can have a very positive impact. But let me remind you that organizational change for the sake of change does not have a great track record.

I am going to work with Marvin Runyon to determine what further changes are needed to regain the confidence of the Congress, the public and the people of TVA. The new TVA board may be back before you requesting and recommending changes, and, I think, you will find this board to be very receptive to anything that will truly help TVA enhance its performance.

Mr. Chairman, I grew up with TVA and I feel strongly that in many ways I am a product of TVA. My familiarity with TVA goes back long before my appointment to the board. I am deeply indebted to this agency for many things that have improved my life and had positive impact on the lives of my family and my neighbors. I still believe there is a real need for TVA.

I took an oath to support the TVA Act. I want the TVA to succeed and want to do my best to help it succeed. There is work still to be done to reach the full potential of that great idea envisioned by Franklin Roosevelt and George Norris: "a corporation, clothed with the power of government but possessed with the flexibility and initiative of a private enterprise."

I look forward to working with Congress, with my board colleagues and with the people of the region to make sure TVA lives up to its legacy and to its potential for the 21st Century.

Thank you, Mr. Chairman.

Mr. NOWAK. Thank you very much.

Mr. Willis is General Manager, and your statement will be incorporated in its totality in the record.

Mr. WILLIS. It is certainly a pleasure to be here as TVA's General Manager and a 28-year employee of TVA and student of TVA. I look forward to working with this committee in answering the central question that dominates this inquiry—what is necessary for TVA to carry out its mission effectively in the 1990's and beyond. That is the key issue.

The structure of the TVA Board is one issue to consider in weighing this question, but it is only one. My purpose here today is to offer my experiences as TVA's general manager and chief operating officer, and look at this question in its full perspective.

First, I would like the record to be clear on the many initiatives taken recently at TVA to improve and strengthen its management effectiveness. At the board's direction last April to give an expanded authority in the agency, we did several things that set ourselves more in line with the way a normal business corporation runs its business.

We established a chief financial officer concept, strengthened our internal management systems, organized TVA's corporate management structure in line with a modern day corporation. This past

August, I developed an extensive option paper on TVA's organizational structure.

It examined a broad range of management options and alternatives, both legislative and non legislative intentions. I hope that this subcommittee will consider that option paper.

Mr. NOWAK. Without objection, if you have the paper present here we will review it.

Mr. WILLIS. I agree with Congressman Flippo that these changes are not sufficient answers to the key question of what is necessary for TVA to carry out its mission in the 1990's and beyond. I must observe that however successful an enlarged part-time board might be, the likelihood of success cannot simply be assumed.

It is at best only one element of a more comprehensive response that would be needed if my question is to be answered. The message is clear—your concern for TVA's future cannot be expressed simply in terms of the structure of the board of directors.

My experience of recent years teaches a very different lesson than that, that if TVA is to be held accountable as a public corporation for maintaining electric rates that are truly competitive, then TVA has to recapture the flexibility and independence of management action that TVA founders envisioned in 1933.

The reality today is dramatically different in my mind. TVA is held accountable, as appropriate and proper, but often denied the authority that is required to get the job done. As the board and others have stated today the issue of permitting TVA to offer competitive market-based salaries is of fundamental importance.

Another major issue in my mind is the situation of TVA's relationship with our investor-owned neighbors. This is undergoing dramatic change. Every day we read of the push towards deregulation and competition in the electric utility industry.

We recognize the TVA service area in this new competitive environment will increasingly become a target of opportunity. A survival of the fittest, competitive market makes it more imperative and important that TVA be as flexible and responsible as our neighboring investor-owned utilities that we compete with.

Those concerned about TVA's future must must give this problem considerable attention. Other major concerns that I have to deal with daily are the administrative obstacles that are increasingly eroding TVA's posture as a public corporation.

As noted in an option paper that I submitted, TVA's corporate independence and flexibility have eroded in recent years, making it more difficult, especially in running an electric power system to operate in an efficient and cost effective way. The effect of those administrative obstacles is even more severe on a public corporation, such as TVA, that was envisioned as running in a businesslike manner—able to compete head-to-head with private sector.

Issues like Federal procurement policies, Federal personnel policies, even Federal travel regulations were not envisioned as a part of TVA's administrative operations in the early days, over the last several years, they have now become a major part of TVA's business, or lack of being able to do business in an efficient manner. Those who pay the costs of these administrative obstacles are TVA's ratepayers. The list of issues gets longer every year.

It is tough, and every year TVA's ability to function as a business gets more problematical. I think the issues being addressed today should be seen in light of the original purpose of the TVA Board.

Its founders intended for TVA to be independent from other government agencies and departments. The fact that TVA's Board is physically located in the Tennessee Valley is of both practical and symbolic significance.

The President and Congress literally intended for TVA's Board to be set apart and they provided for something else that sets the TVA Board apart. They granted TVA Board members complete authority to assess problems, determine innovative solutions and to act upon their own authority—in other words, to act like a private enterprise.

This unique flexibility and freedom to be competitive must not be eroded if TVA is to remain a viable institution for the region and the nation. As deliberations continue about TVA's future, it is heartening to know that members of this subcommittee recognize the need to exercise extreme caution and care to avoid precipitous actions that could inadvertently destroy this precious asset.

I know of few tasks more difficult than carrying out a process of renewal within a large, complex, half-century old public institution. But that is exactly what is taking place at TVA and it is incumbent that it happen.

This process must involve TVA employees, ratepayers and constituents and, of course, the Congress and the Executive. Our goal must be to inspire loyalty, a common sense of purpose and trust. From this perspective, I truly believe that these hearings are an important contribution to building a consensus for action, and I compliment the Chairman and members of the subcommittee for taking this initiative.

Thank you very much, Mr. Chairman.

Mr. NOWAK. Thank you very much.

Your testimony and others indicated that TVA cannot adequately compete with some of the neighboring utilities because of "artificial restrictions" placed upon TVA.

What would you think would be the reaction to allowing TVA to sell power outside of TVA's current service area or region?

Mr. DEAN. We have never had a problem with the so-called fence that the 1959 Act put around the TVA. TVA has the authority and we have the interconnections to buy and sell power from neighboring utilities and we do this on a hourly basis.

We are constantly interchanging power. The 1959 law prevents us from picking individual customers in somebody else's service area and offering to serve them. As far as I am concerned, that is a very reasonable requirement.

We think it ought to work both ways; we don't think that our neighbors should be allowed to pick our customers out of our system either. But as far as permission to sell outside the territory, we have enough permission when the market is right so that our power moves into other people's territories.

Mr. WILLIS. My point is that we are getting into a very competitive world, a survival of the fittest type world. I think we can do very well and be successful, but we should have the same flexibility that private enterprise has around us, particularly investor-owned utilities.

Mr. NOWAK. Some people have stated that TVA's problems are primarily because of the failures of the nuclear program, and I am wondering if you agree with that, and what your reaction would be if somehow the nuclear program were separated from the other activities at TVA? And that leads me to another question, which is who has the outstanding obligations for the nuclear end of your asset, your liability base; and perhaps you could also at the same time give us a nominal sketch of your assets and liabilities overall?

Mr. WILLIS. Mr. Chairman, we have about $14 billion invested in our nuclear system.

Mr. NOWAK. Total debt——

Mr. WILLIS. That is about $17 billion.

Mr. NOWAK. $3 billion in other?

Mr. WILLIS. And then our total assets are in the neighborhood of $24 billion.

Mr. NOWAK. Do you have a borrowing capacity limit?

Mr. WILLIS. Yes, sir. The Congress sets that limit and the current limit is $30 billion.

Mr. NOWAK. That $14 billion is outstanding and I understand that you have some time in the early 1970's, used the Federal financing bank?

Mr. DEAN. We do that now, Mr. Chairman.

Mr. NOWAK. The permission was granted back then, do you use that mechanism?

Could you tell us—you are now, I assume, having to pay interest back on that $14 billion; is that correct?

Mr. DEAN. That is correct.

Mr. NOWAK. What is the average rate that you are having?

Mr. WILLIS. The average total rate—starting at a low rate of 2 or 3 percent in 1959, and hitting a peak of 14 in the early 1980's—the average is close to 10 percent now.

Mr. NOWAK. That is currently being paid—the interest is being paid; is that correct?

Mr. WILLIS. Yes, sir. We are required to include in our rate base all interest on our debt each year; yes sir.

Mr. NOWAK. What part of that is being paid now in your rate structure? Do you have a percentage or a dollar figure?

Mr. DEAN. It is all paid by the electric consumers. There is no place else to get money for the electric system.

Mr. WILLIS. It is about $1.25 billion a year.

Mr. NOWAK. What percent would that be of your rate?

Mr. WILLIS. Close to 30 percent.

Mr. DEAN. This year it will be $1.7 billion.

Mr. NOWAK. Those bonds have no government guarantee on them; do they?

Mr. WILLIS. Those bonds are backed by the ratepayers of Tennessee Valley. TVA sets rates to recover the cost.

Mr. NOWAK. Are those revenue bonds or general obligation bonds of TVA?

Mr. DEAN. They are revenue bonds as they are issued by the FFB to us, but the FFB then holds our revenue bonds and, of course, they issue government bonds. In other words, there are not people out on the street holding a revenue bond on TVA.

The revenue bond stops at the Federal level, and we get our money from FFB, and they add a charge to it.

Mr. NOWAK. The FFB doesn't carry the full faith and credit of the United States; is that right?

Mr. WILLIS. When it goes out on the street—in other words, if you were on Wall Street and bought a U.S. bond that would be used——

Mr. NOWAK. So you have used that mechanism and the bonds were sold at a lower rate because of that?

Mr. WILLIS. Yes, sir.

Mr. NOWAK. Let's go into recess again now for another 10 minutes, hopefully, we will be done voting shortly and maybe this will be the last vote.

We will be back in 10 minutes.

Thank you very much.

[Brief recess.]

Mr. NOWAK. The subcommittee will please come to order.

Mr. DEAN. Mr. Chairman, with your permission, it was pointed out to me, I might not have made it clear, TVA issues revenue bonds and the backing for those bonds is the revenues we collect from our power customers. I want to make that quite clear.

Mr. NOWAK. We were going to look into this further. After they were issued as revenue bonds they were sold through the Federal Finance Bank mechanism; is that correct?

Mr. DEAN. They hold the bonds, but they could sell them if they wanted to. They are negotiable instruments.

Mr. NOWAK. Then you are obligated to whoever hold the bonds?

Mr. DEAN. Yes. However, in the past they were issued on the street, Wall Street, for instance.

Mr. NOWAK. Do you have the numbers here as to what bonds are held by the Federal Finance Bank or are in the hands of the general public?

Mr. WILLIS. We have about $3½ billion of original TVA bonds that were sold on the street as revenue bonds and people hold outside. The rest of it is either held by the Federal Financing Bank or they may issue some of them. I don't have the numbers, but we can provide it for the committee.

Mr. NOWAK. Maybe we can get that tomorrow. Since these are revenue bonds, could you tell us the rationale for using the Federal Finance Bank at the time those bonds were issued?

Mr. WILLIS. Ten years ago Treasury came to us and insisted that they manage that debt for us. The Treasury Department wanted to do that as they manage all government debt. They wanted to do that.

We pay them a premium of one eighth in order to do that and they actually make money off the transaction. They came to us and initiated that several years ago.

Mr. NOWAK. And at that time did you use them because they insisted on it, or because you would obtain a better rate with them holding the bonds?

Mr. WILLIS. At the time, they insisted on it. Prior to that time, from 1959 to the early 1970's, TVA issued the debt itself. The

Treasury Department wanted to control the debt, and set up this arrangement.

Mr. **Nowak**. Has all the debt since first issuance of the bonds to the Federal Finance Bank been issued in like manner?

Mr. **Willis**. Yes, sir, generally. We had some in the early days with withdrawal provisions on them. The bonds today do not have that.

Mr. **Nowak**. The bonds that you issued in the high interest period are not callable?

Mr. **Willis**. Some of them have a 10-year call on them. We haven't reached the 10-year time frame yet. Most people with IOU's have a five-year call on those type bonds.

Mr. **Nowak**. Could you tell us what was the last time you went out to the bond market and increased your debt?

Mr. **Willis**. Mr. Crawford, do you have the date——

Mr. **Dean**. You mean the FFB, Mr. Chairman?

You mean Wall Street?

Mr. **Nowak**. The last time you went to the market.

Mr. **Dean**. The open market?

Mr. **Willis**. The last time we went to the open market was in 1974 with TVA bonds and we usually go to FFB three or four times a year.

Mr. **Nowak**. Since 1974 you have used the mechanism of the FFB?

Mr. **Willis**. Yes, sir.

Mr. **Nowak**. Are the bonds rated by any of the agencies? Standard and Poors, the regular rating services?

Mr. **Willis**. The current bonds that were issued are not.

The early issues were rated as triple A, as I recall; is that correct?

Mr. **Dean**. Yes.

Mr. **Nowak**. But the Federal Finance Bank didn't require a rating?

Mr. **Willis**. No sir.

Mr. **Nowak**. Let me turn just a minute to the salary problem that has been referred to by, I guess, every witness. The salaries of the general manager and the directors—they are paid out of the power revenues; is that correct?

Mr. **Dean**. Primarily. The effort is made to divide those charges. Actually the board and general manager are now being paid about 95 percent from power, and 5 percent from appropriated funds.

Mr. **Nowak**. How about the other of your divisions, such as agriculture, and so forth?

Mr. **Dean**. They are primarily paid out of appropriated funds. There is a very careful effort made to allocate those charges in accordance with the actual use. The gentleman who runs the Office of Agriculture and Chemical development—would be paid 100 percent of appropriated funds.

Mr. **Nowak**. And all of their employees would be paid out of appropriated moneys?

Mr. **Dean**. Yes, sir.

Mr. **Nowak**. So there is segregation of those?

Mr. **Dean**. Yes, sir.

Mr. **Nowak**. When we talk about expanding the board and bringing on seven or nine members, I wondered if you could respond to, you know, the allegation that they may not be ale to devote sufficient to really make the kind of policy decisions that they would be charged with? Is this a large problem in your minds?

Mr. **Dean**. It depends on what point of view you want to take, Mr. Chairman.

Mr. **Nowak**. I want you to take a point of view.

Mr. **Dean**. The current board is full-time, and is, in effect, the CEO. There are many, many things that the current board has to deal with—not just power, but many items, agricultural and other responsibilities.

It is absolutely full-time and then some—there is a lot to do. Those who propose a part-time board would structure it to where it would only deal with policy of matters and, therefore, they wouldn't be required to know as many things about as much as the current board is.

Mr. **Waters**. I would like to respond to that, because I guess I have a little different viewpoint. TVA is a very diverse organization, not only in power. But as you have just heard, we have the agriculture and chemical development operation, which incidentally originated 75 percent of all the fertilizer technology ever developed in this country.

The United States Department of Agriculture doesn't do this. TVA does it for the nation as a whole. That is all financed from appropriated funds. Out of the approximately $100 million that TVA gets each year from appropriated funds, about $35 million of that goes into our Muscle Shoals, Alabama fertilizer development operation.

Chemists and chemical engineers and a lot of agricultural scientists and technicians are working in laboratories there.

Then we have up on the Kentucky-Tennessee border, Land Between the Lakes, which is 170,000 acres of land on a long peninsula between the Kentucky Dam, which backs up the Tennessee River, and Barkley Dam, which backs up the Cumberland River. This is similar to operating a national park, except that TVA carries out a number of environmental educational programs there for youth, as well as graduate students that colleges and universities send there.

We are trying to learn by operating that facility, how we can live on the land, farm it, mine it, hunt, fish, benefit from it and still protect its environmental quality.

My point is that there is, I think, a danger that you could have part-time people here who serve a term on the board and never have much of an idea about a lot of these programs. I have been on this board now more than three years, and I have worked pretty hard at just trying to learn. But TVA is a huge operation and I am concerned with what I think was the original thrust of your question—would a part-time board ever be informed sufficiently enough to even make the policy decisions that would be envisioned for them even though I understand fully the need for separating policy and management. That is one of the concerns of a part-time board that I personally have considerable doubt about.

Mr. **Nowak**. If changes were made, I assume you would have to agree that the chief executive officer would have vastly increased responsibility because he would also be there informing the board. What is the difference between that and the multitude of large multi-national corporations that are run this way today?

Where do you see the—I mean all the directors that are serving in those capacities throughout our corporate structure——

Mr. WATERS. The difference I see, sir, is that you have the difference of the profit motive. TVA is a publicly-owned corporation; we are a non-profit organization and you don't have, as in an investor-owned utility or any corporate board, the main objective of making a profit. I have served on many of those boards.

There is no question that they offer a measure of efficiency that you don't find in a public operation. I don't doubt that for one minute.

I fully understand it. I think the difference is that in such an organization as TVA we justify our existence by other ways, certainly not profit.

Mr. NOWAK. Let me ask you another related question. Are the managers in any way by the law itself, limited with personal liability of any actions they take at the present time?

Mr. WATERS. I can assure you that my general counsel tells me that I am insulated from that. I have asked him that question and he better have told me correctly.

Yes, we are not personally liable.

Mr. DEAN. We are sued pretty regularly, Mr. Chairman.

Mr. NOWAK. Have lawsuits been filed against anybody personally?

Mr. DEAN. Oh, yes. Usually that is the way it is. It is a scatter gun approach. They name everybody, starting with the chairman, on down.

Mr. WATERS. But it is against us in our corporate capacity.

Mr. NOWAK. Has it been litigated there is no personal responsibility?

Identify yourself for the record.

Mr. CHRISTENBURY. Edward Christenbury. The specific point you raise has not been litigated as such. However, the Board—under policy adopted by the Board for all their actions within the scope of their employment, would be indemnified by the Board. So, the suits the Board alluded to that have been brought, are brought in their official capacity when they are sued.

In most cases, since the statute permits TVA to be sued in its own name, we would move to dismiss the Board as a party. The TVA as an organization is the appropriate party for lawsuits arising out of actions of the agency.

But to answer your specific questions, any actions for which the Board were sued, for which they were acting as part of their official duties, they would be indemnified and would not be personally liable.

Mr. NOWAK. Fine.

Mr. Sundquist?

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Before I get into some specific questions, Mr. Waters, you have been in Savannah at the Yellow Creek location, and helped us and worked with us.

I would like to ask you, Mr. Dean or Mr. Willis about the possibility that the advanced rocket motor construction facility might come our way in the Valley. That would be a great asset to TVA in terms of utilizing power. One of the best sites for that, giving the millions of dollars of investment on a nuclear site that has been closed down, is Yellow Creek.

If NASA expresses an interest, will TVA allow Yellow Creek to be developed for the rocket motor plant?

Mr. WATERS. We made a preliminary investigation. Certainly Mr. Willis can enlarge on this. From what we know right now, we are very positive on that. We think it can be handled. We think Yellow Creek does have a lot to offer.

It does not interfere with any of our long-term plans. It would be a use of the property we would welcome. We are going to get our nukes back on line. We are going to need electric customers.

TVA has an interest, certainly, in national defense; it always has. We play a role there. We are very positive about that from what we know right now. I will let these gentlemen add anything they might.

Mr. DEAN. As John hinted at, the good thing about it is that they are not really interested in a permanent, "forever" type of installation, which is good for us because somewhere down the road that may be a very valuable place to put a powerplant. We are talking about way out there.

Mr. SUNDQUIST. A long-term lease?

Mr. DEAN. Yes.

Mr. WILLIS. I think we could find a way to accommodate companies that have expressed interest in that. That is a very valuable site for our site inventory in the western part of the system. If we had to expand the central generating capacity, that is where we would want to do it. That is out way beyond the year 2000.

The time frame they are interested in happens to be a time frame we would be interested in leasing in anyway. They seem to be——

Mr. SUNDQUIST. I appreciate your flexibility and willingness to work on that. I assure you Mr. Whitten and Mr. Bevill and others of us will be meeting with you on that. I think that is the kind of thing we need more of in the Tennessee Valley.

Mr. Dean, I understand that in your remarks, you don't favor restrictive requirements on a proposed Board. But don't you think a case could be made that a majority of the membership of the Board should come from within the Valley?

Mr. DEAN. Yes, sir. As a matter of fact, the bulk of the money we handle, $5 billion-plus every year, is ratepayers' money. I think there is quite a case to be made that the ratepayers or representatives, as you referred to, would have—should have a lot to say about how that money is spent.

So, there could be a case made. The one thing I would like to emphasize that was in my remarks is if there are changes made, they should be very carefully looked at over quite a period of time, because those things would require considerable debate.

Mr. SUNDQUIST. I agree with you, and commend your comments.

It has been said earlier today that our hydro powerplants are among the very best in the country. They have been consistently among the best operated in the country. Is that a fair statement?

Mr. **Willis**. May I comment on that? Both our hydro and fossil-fired systems are highly regarded in the industry. We have several units that Director Waters mentioned that are among the top in the Nation. We had the fossil system as a whole ranking among the best in terms of heart rate and efficiency.

For several years in a row, we have had in the TVA system the number one, most efficient plant in the Nation. We are very proud both of the hydroelectric and fossil plants.

Mr. **Sundquist**. I would agree and add that TVA's work in other areas—such as acid rain research—is an example for the whole country.

Given the fact our fossil and hydropower operations are among the very best, is it fair to say that the efficient operation of hydro and fossil has not depended on higher rates, because we have been able to get the job done under the present system.

Mr. **Dean**. Mr. Sundquist, for just a second, let's use Ontario Hydro. It is a Crown corporation, a federal corporation that is in the power generation business, very comparable in many ways to TVA.

Their Board, which consists of 12 people, sets the pay and they use what is called a Hay system, which is a commonly used system for pay in industry. Their pay is ranked against 50 high-tech Ontario companies. That is how they arrive at the pay, and it is a very systematic way.

I am not skirting the question. There are some people in the fossil system who would probably be entitled to more money, if that same type of system was employed and other utilities used it to determine what should be paid.

Whether that would exceed the level one, I have a hunch it might, as a matter of fact. But there would be even more in nuclear, where it is such a high-tech business. Those rates have gone sky-high for certain top people.

Mr. **Willis**. I would certainly hate to have the task today to go out and have to replace the head of my power system and fossil system and the top two or three levels of that at current rates of pay. I don't think we could do it. We have got people who stayed with us in that area.

I would very much hate to have to go out on the street and replace those people at the current rates.

Mr. **Sundquist**. Mr. Willis, I appreciate your saying that. I agree with you. The point I was making is that everyone doesn't have to exceed the pay cap. We are talking about a limited number of managers you either want to attract in the future or retain now.

We are not talking about a lot of people being moved up above the present pay cap.

Mr. **Dean**. We said probably less than 50, Mr. Sundquist.

Mr. **Sundquist**. And——

Mr. **Nowak**. Excuse me. To follow up on that, if I could? Could you give to us, you have provided a table of organization in your testimony, and could you submit for the record those 50 people or so that you think would exceed the cap?

Mr. DEAN. We will do that, Mr. Chairman.

Mr. NOWAK. And the reasons why, briefly in your statements, what the market——

Mr. DEAN. Yes. We have survey data.

Mr. WATERS. We can show you our job descriptions or job titles and what they would make in a competitive market. As has been pointed out, you are talking about maybe as many as 20 people in nuclear and maybe 20 people in all the rest of TVA. We have 30,000 employees. We are not talking about everyone. We are talking about—I like to say less than 50. It could be 40, certainly in that ball park.

Mr. NOWAK. We would appreciate that information being submitted as soon as you can.

[The following was received from Mr. Dean:]

(This March 6, 1987, report was prepared by TVA and included in the 1987 report of the Southern States Energy Board's Advisory Committee on the Tennessee Valley Authority. It documents the impact of the Federal pay cap on TVA's ability to pay competitive salaries to key power system managers.)

A REPORT ON THE TVA POWER SYSTEM SALARY PROBLEMS
MARCH 6, 1987

TVA today is faced with its greatest challenge since its formative years in the 1930s. Putting the nuclear power program back "on track" and effectively managing the power program as a whole will determine the way TVA survives into the future.

TVA is committed to using one standard for setting the compensation of all employees--that is, the prevailing rate paid by employers for comparable positions in the appropriate labor market. The TVA Act provides this as the standard for setting wages of trades and labor employees, and TVA's collective bargaining agreements prescribe this standard. TVA also strives to establish managers' compensation on that basis. This standard has served TVA well over the years, permitting it to recruit and retain a work force of competent, trained, and dedicated employees at all levels. But many top TVA executives do not receive the prevailing compensation for their work, or anything approaching it. TVA Board members' salaries, set in the traditional Government-wide pay setting process, cap the salaries TVA can pay its employees. The prevailing salaries in private industry for some TVA executive positions are far more than TVA can pay. Attachment I details the salary disparity for key TVA positions.

In January 1986 TVA contracted with an outside company to provide services to manage TVA's nuclear power program at a cost well in excess of what would be needed to hire our own talent. We have seen that this approach requires us to contract for services of loaned managers from the nuclear industry to help in the recovery plan for the nuclear program. The pay for these loaned managers ranges from $95,000 to $200,000 per year. This is the market rate for individuals having the skills and experience required to manage a nuclear power generation program. This is a short term solution. It is our goal to replace these consultants and loaned managers with regular TVA personnel and return the management of the nuclear power program to regular employees of TVA. We are attempting to recruit and/or train individuals for these positions.

Realizing problems in its management ranks, TVA has begun programs to develop the potential of its managers. Many actions are being taken. In the past year TVA has instituted or is developing (1) mandatory training in supervisory skills for all levels of management; (2) a development program for key executives; (3) mandatory skills assessment and individual development programs for all levels of managers; (4) succession planning to prepare managers to assume higher level positions; and (5) an intensive recruiting effort to employ additional qualified managers.

Immediately TVA must solve the nuclear problem by getting the nuclear power plants safely operable and back "on line." In some instances this will require recruiting managerial talent. It is obvious that we will not be able to recruit to fill immediate openings or even retain all the qualified managers we now have if we are limited to salaries at or below the Federal pay cap.

The challenge facing the TVA power system is to meet, as safely as possible, the power requirements of the TVA service area at the lowest feasible cost. Because of the money that can be saved for the ratepayers by the correct management actions and the large amounts that can be lost by the wrong decisions, each aspect of meeting this challenge requires the best management talent available. These managers are not readily interchangeable with executives inexperienced in utility management nor are they comparable to most executives in the Federal sector.

The challenges facing TVA are imposing.

TVA's coal-fired plants are aging, and are now carrying the heaviest part of our generation load. We operate the nation's most efficient fossil-fired plant, and we need to keep our record as good in the future as it has been in the past.

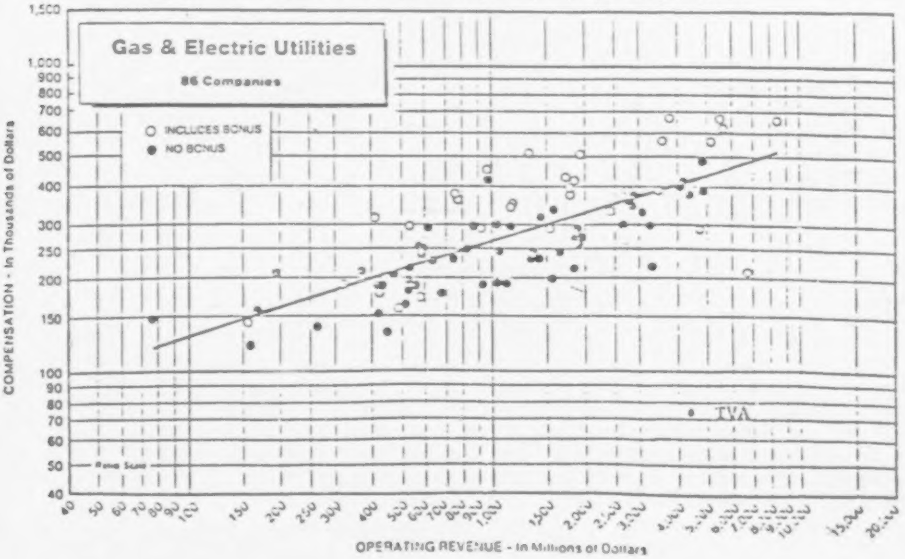
The challenges TVA faces in its nuclear program do not need to be enumerated. But clearly, while there were many different causes for the current problems, we cannot solve them on a long-term basis without dealing effectively with the salary cap issue.

Nuclear safety is as much a function of competent management as fail-safe equipment. Having built these plants in the Tennessee Valley, TVA has an enormous responsibility to operate them as safely as possible.

These TVA jobs require many years of experience and the marketplace has placed a value on these people far in excess of their TVA salaries. The power system is one of the most complex systems in the country managed by a single organization; few private corporations are bigger than TVA; and few entities—public or private—have such an important impact on the daily lives of as many people as TVA.

In the utility industry, as elsewhere in the private sector, a direct correlation exists between the size of the job and the size of the reward. That correlation is well-established by compensation studies, including those done annually by The Conference Board. The chart below graphs the compensation of the top executive at 86 electric utilities in comparison with the size of the company for which those executives are responsible in terms of operating revenue. Look closely—TVA is the one in the lower righthand corner, clearly out of line with the normal relationship of size, complexity, responsibility, and salary.

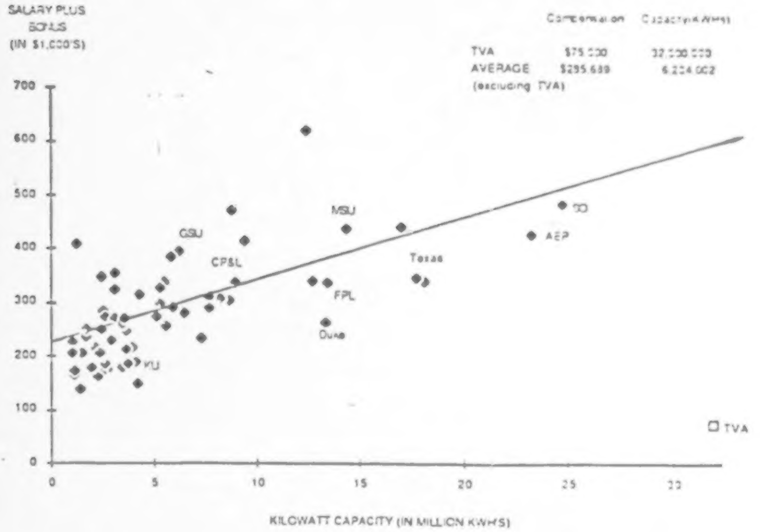
Compensation of the Chief Executive, by Company Operating Revenue



From Top Executive Compensation--1987 Edition (data based on 1985 operations) Conference Board. TVA added.

The salary disparity between TVA and its competitors in the labor market is even more obvious when salaries are compared to generating capacity--a truer indication of size than operating revenue. The following chart graphs salary plus cash bonus of chief executive officers of utilities against installed generating capacities for their companies. We have labelled other southern utilities (a list of all utilities in the chart is included as attachment 2). TVA is the biggest electric utility in the country. Its top pay is approximately one-fourth of the average shown.

KILOWATT CAPACITY AND SALARIES

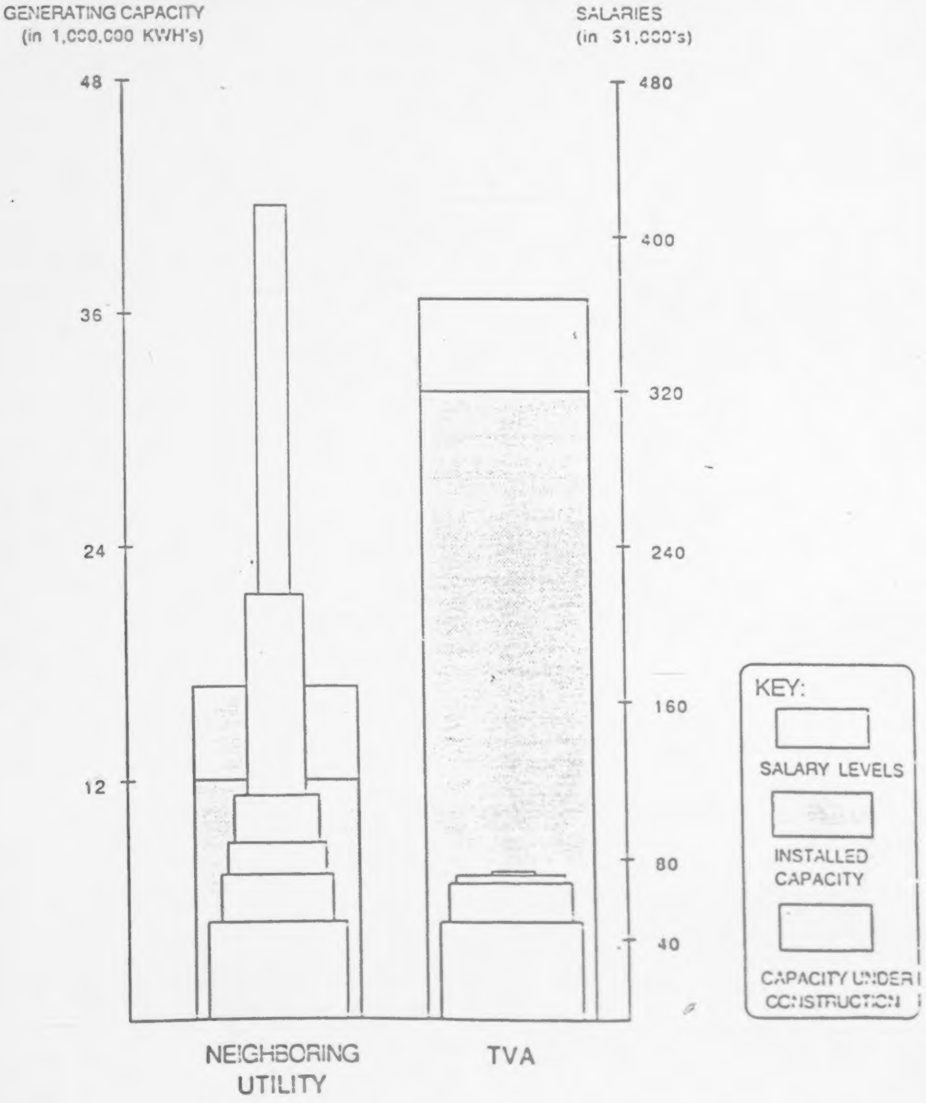


For the most part, TVA is able to adequately compensate its employees up through middle management. For example, pay compression does not tend to be a problem in the fossil/hydro power program up to the plant manager positions. This is a major reason why we are able to run the fossil and hydro plants safely and efficiently as pointed out in a letter from Senators Sasser and Gore. However, we are facing a certain future problem in these programs because these plant managers are the experienced pool for senior managers needed to fill positions necessary to run the corporate power business of TVA. There is little incentive for one to uproot families and homes when the total compensation increase from plant manager to manager of the entire power program is so small. In addition, we have no way of knowing how many aggressive junior engineers leave TVA early in their careers after realizing the limitations on their futures. These people could have become TVA's top managers of tomorrow.

The problem in the nuclear power program is even more severe. This industry demands a larger number of qualified managers in fields of expertise not required in the fossil/hydro programs. Even in those fields of expertise which are similar to those in the fossil program the qualifications, experience, and training are more demanding and consequently are more in demand throughout the nuclear industry. This demand carries with it compensation levels which TVA simply cannot match with present limitations.

It is unrealistic to expect a highly qualified and competent manager to work for a salary which is $20,000 to $70,000 less than could be earned elsewhere. It has been demonstrated by the loaned managers currently working at TVA, that competent nuclear program managers come high. These are employees from the nuclear industry and are being well paid by their parent companies.

A striking example of the lack of comparability of salaries and responsibilities is shown on the following chart. It compares TVA with a neighboring southern utility in terms of both salary levels and generating capacity. The comparison can be stated simply: TVA has nearly three times the capacity; our competitor pays five and one-half times the salary for its top-level position.

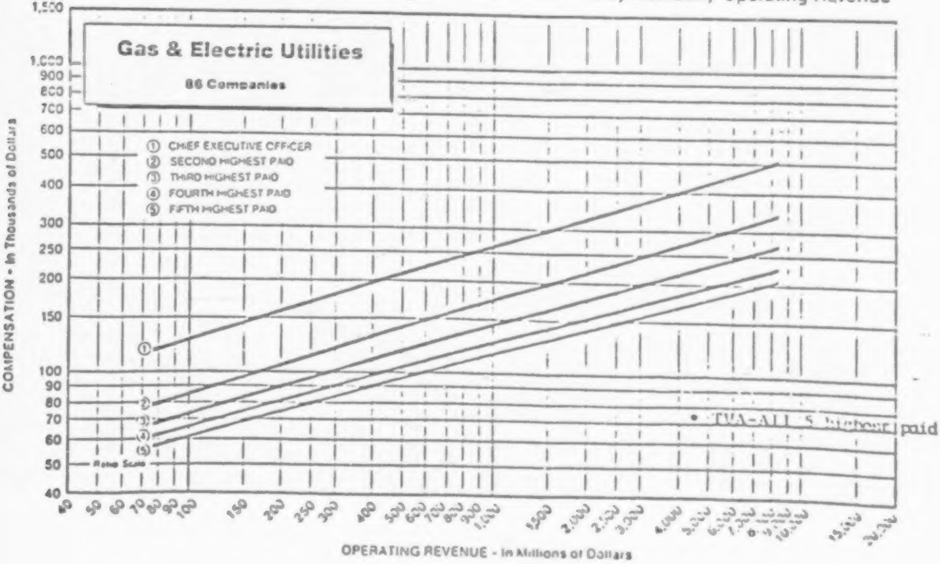


We realize, of course, that we cannot match the market salaries for all senior managers in the power programs, particularly for the top few executives. These positions will continue to be a potential problem until the salary cap is lifted. However, we believe that we can retain competent, qualified managers in these top positions at salaries marginally below market value if we can approach market values in positions immediately below the top executives, and demonstrate by our tangible efforts a willingness to try to solve the top management salary issue.

In TVA's efforts over the years to pay as many managers as possible prevailing rates, lower level managers' salaries have been adjusted upward; this in turn has eliminated much of the salary differential in the chain of command; the salaries of TVA managers are bunched together at the top.

Top TVA pay levels are tightly compressed and the pay differential of top TVA executives over subordinate managers and rank and file employees is much too small. Many private companies calculate executive salaries as a percentage differential over the salary of the level supervised. For example, in utilities the chief operating officer receives a salary that averages 69 percent of the chief executive officer's salary. On the average, an executive vice president receives 56 percent of the chief executive officer's salary. In TVA, those differentials are 98 percent and 97 percent, respectively. The chart below graphically displays the utility industry's salary differentials, and TVA's compression.

Compensation of the Five Highest Paid Executives, by Company Operating Revenue



From Top Executive Compensation--1987 Edition (data based on 1985 operations) Conference Board. TVA added.

At the same time, TVA does not have the perquisites to offer top executives which are common in private industry. Although the utility industry is conservative in its executive perks, such things as low-interest loans, country club memberships, cars, etc., are common, and are part of a total compensation package. Approximately one half of private utilities have executive bonus plans, in addition to salary, that pay bonuses with a median value in 1985 of 26 percent of salary.

There is a tangible disincentive for TVA's better lower-level employees to accept higher-level jobs, since the increase in pay between these levels is not at all commensurate with the increase in responsibility. These persons are precisely the ones most likely to be attracted by outside offers where their superior talents can be more adequately recognized and rewarded.

Meeting market values at lower positions in the structure will permit us to recruit, train, and retain a management pool from which the top senior managers can be selected. Moving through those preparatory positions to the top executive jobs usually takes several years at which stage company loyalty, job challenge, geographic location, and position prestige might be a major substitute for higher salaries found in comparable positions in the private sector.

These nonmonetary factors are not as important to younger, ambitious, junior and midlevel managers who, while seeking a career path leading to more responsibility, may place a great deal of importance on the compensation associated with the responsibility. These are the bright young people who have not put down deep roots and do not hesitate to make a career change for better opportunities. In most cases the largest opportunity is being able to make more money.

We have so far been successful in retaining these junior and mid-level managers in the fossil/hydro power programs because we do pay market salaries except in the very top positions. Such is not the case in the nuclear program because market value deviations occur at lower management levels in this industry. In addition, as pointed out earlier, the nuclear industry requires a greater variety of disciplines and a greater number of managers at the junior and mid-level positions. As is obvious, we have not recruited or retained a sufficient number of bright, less senior managers to gain the experience to move into more and more responsible positions in the program. The inability to compensate at a level comparable to industry has been a very large factor in the absence of an adequate management pool in TVA.

What do others say about the salary issue?

The President's Nuclear Safety Oversight Committee (established in the wake of the Three Mile Island accident) in its April 17, 1981 report to President Reagan stated:

> . . . only the operating utility can ultimately assure safe operation; regulatory schemes can never be a substitute for strong utility management with high technical competence at all levels of plant operation.

The Senate Committee on Environment and Public Works in its 1981 oversight report on TVA said:

> To keep power rates as low as possible, TVA must retain its best power system professionals and executives . . . Because TVA's power program competes with private industry for talent in fields that suffer from a shortage of skilled personnel and which pay much higher salaries than TVA, the Committee believes that TVA needs to strengthen its compensation programs applicable to these employees.

The transition team report prepared for President Reagan by Robert L. Sansom in March 1981 entitled "Major Policy Issues Facing the Tennessee Valley Authority and Its Ratepayers" concluded

> TVA's salary structure needs an overhaul. Top-level executives who manage $5 billion in assets with another $12 billion in construction need to be compensated accordingly.

A team from the President's Private Sector Survey on Cost Control (the "Grace Commission") studied TVA in 1982-83 and reported:

> Since TVA management salaries are well below salaries in the private sector, investor-owned utilities actively recruit TVA managers. However, due to the size, complexity and long learning curve required by TVA management positions, as well as TVA's inability to offer competitive salaries, TVA can rarely recruit managers from outside the TVA system . . . High turnover rates have led to less stability in management ranks, particularly in crucial positions in the nuclear power and engineering design and construction programs.
>
> The Administration should approach Congress for legislation to allow TVA to increase management salaries . . . The potential benefits in terms of increased efficiencies, safety improvements, and management effectiveness are enormous.

The problem is obvious, and well recognized. We simply cannot compete for the necessary talent with our hands tied by artifical constraints.

Attachment I

LABOR MARKET SALARY DATA

NUCLEAR POWER PROGRAM

TVA Position & Salary	Industry Salary Range Minimum	Midpoint	Maximum
Manager of Nuclear Power - $74,300	164,520	205,644	246,768

This data was obtained from a private utility and is the closest matched position.

A typical title for this position is Executive Vice President, Engineering, Construction, and Production Group. Incumbent has overall managerial responsibility for the company's design engineering function (including fossil and nuclear plants), plant construction, modification, and maintenance; nuclear production; fossil production; and production support including biology, chemistry, health physics, etc.

TVA Position & Salary	Industry Salary Range Minimum	Midpoint	Maximum
Assistant Manager of Nuclear Power (Operations) - $74,200	112,000	140,000	168,000

This data was obtained from the Edison Electric Institute Nuclear Survey.

The typical utility title is Vice President, Nuclear Production Department. Incumbent has overall responsibility for the company's nuclear generation function. This includes operation, maintenance, and general administration of power plants.

TVA Position & Salary	Industry Salary Range Minimum	Midpoint	Maximum
Assistant Manager of Nuclear Power (Engineering & Construction) - $74,200	100,175	125,025	150,000

This data was obtained from a special survey conducted for TVA by Organization Resource Counselors.

The typical industry title for this position is Vice President of Engineering and Construction. The incumbent has overall responsibility for the organization's engineering and construction activities.

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Director of Nuclear Construction - $74,100	76,848	94,803	112,757

This data was obtained from the Edison Electric Institute Nuclear Survey and from private utilities.

The typical industry title is Vice President of Construction. Incumbent has overall managerial responsibility for the organization's construction activities including new plant construction and modifications.

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Director of Nuclear Engineering - $74,100	69,727	87,177	104,627

This data was obtained from various private utilities.

The typical utility title is Manager of Nuclear Engineering. Incumbent has overall responsibility for engineering activities involved in the development, design, modification, and operations of the organization's nuclear generating facilities.

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Site Director - $74,100	73,800	89,765	105,715

This data was obtained from a special survey conducted for TVA by Organization Resource Counselors and from private utilities.

Typical industry titles are Site Vice President or Site General Manager. The incumbent is responsible for all activities on the nuclear site including plant generation, modifications/engineering activities, and maintenance.

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Project Manager, Nuclear Construction Site - $74,100	69,000	87,160	104,330

This data was obtained from the Edison Electric Institute Nuclear Survey and various private utilities.

A typical title is Project Manager. Incumbent has overall responsibility for all construction activities, design changes, project scheduling, and cost control in the construction of a power generating facility.

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Nuclear Plant Manager - $73,000	63,788	79,740	95,692

This data was obtained from the Edison Electric Institute Nuclear Survey and several private utilities.

The typical utility title for this position according to the Edison Electric Institute Utility Survey is Nuclear Power Station Manager. Incumbent has managerial responsibility for the operations and maintenance activities at a nuclear generating facility. Conducts and coordinates meetings with inspectors for the Nuclear Regulatory Commission to determine whether the plant operations are in compliance with the operating license.

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Manager of Engineering Projects - $74,100	63,516	79,406	95,295

This data was obtained from a special survey conducted for TVA by Organization Resource Counselors.

A typical industry title is Engineering Projects Manager. Incumbent has managerial responsibility for all engineering design activities for specific engineering projects. This includes technical oversight, project scheduling, and cost control.

TVA Position & Salary	Industry Salary Range Minimum	 Midpoint	 Maximum
Manager of Engineering and Techinical Services - $74,100	62,781	78,476	94,171

This data was obtained from a special survey conducted for TVA by Organization Resource Counselors.

This title is typical to the industry. Incumbent provides a variety of services to the engineering organization such as data processing support, computerized graphics, automated recordkeeping, and document control.

TVA Position & Salary	Industry Salary Range Minimum	 Midpoint	 Maximum
Construction Project Manager - $70,115	60,793	75,748	90,704

This data was obtained from the Edison Electric Institute Nuclear Survey and from various private utilities.

The typical industry title is Construction Manager. Incumbent has responsibility for all construction activities including planning, scheduling, cost control, and general administration needed in the construction of a nuclear generating facility.

TVA Position & Salary	Industry Salary Range Minimum	 Midpoint	 Maximum
Director of Nuclear Quality Assurance - $74,100	59,916	74,892	89,869

This data was obtained from the Edison Electric Institute Nuclear Survey.

The typical industry title for this position is Manager of Quality Assurance. Incumbent directs the quality assurance, quality control, and inspection functions related to quality assurance in the design, procurement, construction, and operation of nuclear plants and related equipment.

*Salary data was obtained from: (1) Edison Electric Institute; (2) Organization Resource Conselors; (3) Towers, Perrin, Forster, and Crosby Utility Survey; (4) Georgia Power; (5) Duke Power; (6) Carolina Power and Light; (7) Mississippi Power; (8) Florida Power and Light.

NON-NUCLEAR POWER PROGRAM

(Includes Fossil/Hydro Power and all other Corporate Power Responsibilities)

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Manager of Power - $74,300	206,205	257,757	309,309

This data was obtained from the Towers, Perrin, Forster, and Crosby Utility Survey.

A typical industry title for this position is Manager of Power. Incumbent has overall managerial responsibility for the power production function, transmission and distribution function, and all marketing and rates activities.

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Assistant Manager of Power (Operations) - $74,200	102,513	143,013	177,874

This data was obtained from the Edison Electric Institute Survey.

The typical industry title for this position is Vice President, Fossil Production. Incumbent has full responsibility for the operation, maintenance and general administration of the organization's fossil power plants. The incumbent also has responsibility for system load, dispatching, and interconnected pool requirements.

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Assistant Manager of Power (Energy Use) - $74,200	93,098	116,600	140,105

This data was obtained from the Organization Resource Counselors survey conducted for TVA.

A typical title for this position is Vice President, Energy Use. Incumbent has overall responsibility for the marketing, distribution and customer service activities as well as contract relations with power distributors and industrial users.

TVA Position & Salary	Industry Salary Range Minimum	 Midpoint	 Maximum
Director of Fossil and Hydro Power - $74,100	78,796	97,805	116,623

This data was obtained from the Organization Resource Couselors Survey conducted for TVA.

A typical industry title for this position is General Manager, Fossil and Hydro Operations. Incumbent has managerial responsibility for the operations, maintenance, and general administration of the organization's fossil and hydro generating facilities.

TVA Position & Salary	Industry Salary Range Minimum	 Midpoint	 Maximum
Director of Operations Support - $74,100	105,898	131,284	156,670

This data was obtained from the Organization Resource Counselors Survey conducted for TVA

A typical industry title for this position is Vice President, Production Support. Incumbent has managerial responsibility for all warehousing activities, overall materials management, and for various laboratories and testing facilities needed to support the power production effort.

TVA Position & Salary	Industry Salary Range Minimum	 Midpoint	 Maximum
Director, Power Systems Operations - $74,100	74,013	92,849	111,692

This data was obtained from the Edison Electric Institute Management, Administrative, and Professional Survey and the special Organization Resource Counselors survey conducted for TVA.

The typical industry title for this position is Vice President, Transmission. Incumbent has responsibility for the operation, maintenance, and general administration of all distribution, subtransmission and transmission facilities.

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Director of Energy Use and Distributor Relations - $74,100	64,293	79,878	95,461

The data for this position was obtained from the Edison Electric Institute Management, Administrative, and Professional Survey, and the special survey conducted for TVA by Organization Resource Counselors.

The typical industry title for this position is Manager of Customer Service. Incumbent has managerial responsibility for residential, commercial, industrial, and institutional promotion of efficient energy utilization, area development and related customer service activities. This position may also have responsibility for power contracts with various industrial users and distributors.

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Director of Conservation and Energy Management - $74,100	66,068	82,585	99,102

The data for this position was obtained from the special industry survey conducted for TVA by Organization Resource Counselors.

A typical title for this position is Manager of Conservation. Incumbent has managerial responsiblity for promoting the efficient use of electric power by working with distributors and customers to conserve electric power.

TVA Position & Salary	Industry Salary Range		
	Minimum	Midpoint	Maximum
Director of Power Engineering & Construction - $74,100	64,728	80,904	97,080

The data for this position was obtained from the private utilities.

A typical job title for this position is Project Manager, Engineering and Construction. Incumbent has responsibility for non-nuclear engineering and construction activities. This includes modification and outages of fossil generation plants and the construction of various nongenerating power facilities.

*Salary data was obtained from: (1) Edison Electric Institute; (2) Organization Resource Counselors; (3) Towers, Perrin, Forster, and Crosby Utility Survey; (4) Georgia Power; (5) Duke Power; (6) Carolina Power and Light; (7) Mississippi Power; (8) Florida Power and Light.

Attachment 2

Utility	Generating Capacity (kW)	Salary and Bonus
Allegheny Power	3,199,133	$ 325,000
American Electric Power (AEP)	23,351,000	431,000
Arizona Public Service	3,150,200	357,000
Atlantic City Electric	1,642,200	205,000
Baltimore Gas and Electric	5,557,000	338,000
Boston Edison	2,648,236	282,000
Carolina Power and Light (CP&L)	8,750,000	304,000
Central and Southwest Corporation	12,768,000	341,000
Central Illinois Public Service	2,780,000	177,000
Cincinnati Gas and Electric	4,030,250	215,000
Cleveland Electric	4,322,000	312,000
Commonwealth Edison	18,176,000	341,000
Consolidated Edison	9,451,000	415,000
Consumers Power	6,585,100	280,000
Dayton Power and Light	2,687,000	274,000
Delmarva Power and Light	2,225,000	214,000
Detroit Edison	8,852,000	472,000
Duke Power	13,411,000	264,000
Duquesne Light	3,148,000	272,000
El Paso Electric	1,122,750	226,000
Florida Power and Light (FP&L)	13,470,000	339,000
General Public Utilities	8,301,000	305,000
Gulf States Utilities (GSU)	6,250,000	394,000
Idaho Power	2,488,869	170,000
Illinois Power	3,742,000	248,000
Iowa-Illinois Gas and Electric	1,539,121	138,000
Kansas City Power and Light	2,477,000	252,000
Kansas Gas and Electric	2,083,500	181,000
Kansas Power and Light	2,681,000	188,000
Kentucky Utilities (KU)	3,496,627	180,000
Long Island Lighting	3,721,000	213,000
Louisville Gas and Electric	2,322,000	162,000
Middle South Utilities	14,409,000	441,000
New England Electric	4,239,000	147,000
New York State Electric and Gas	2,443,500	203,000
Niagara Mohawk	5,215,000	274,000
Northeast Utilities	6,044,589	289,000
No. Indiana Public Service	3,514,481	260,000
Northern States Power	5,954,900	383,000
Ohio Edison	5,402,000	295,000
Oklahoma Gas and Electric	5,656,300	295,000

Attachment 2

Utility	Generating Capacity (kW)	Salary and Bonus
Pacific Gas and Electric	12,483,670	619,000
Pennsylvania Power and Light	7,415,000	234,000
Philadelphia Electric	7,765,000	311,000
Potomac Electric	5,375,000	329,000
Public Service Colorado	3,022,750	230,000
Public Service Indiana	4,162,100	189,000
Public Service New Hampshire	1,236,918	165,000
Public Service New Mexico	1,340,000	407,000
Public Service Electric and Gas	8,999,000	340,000
Puget Sound Power and Light	3,839,000	187,000
Rochester Gas and Electric	1,133,000	203,000
San Diego Gas and Electric	2,549,000	349,000
Southern California Edison	17,110,000	444,000
Southern Company (SO)	24,791,421	486,000
Southwestern Public Service	3,650,247	273,000
TENNESSEE VALLEY AUTHORITY	32,000,000	75,800
Texas Utilities	17,804,000	350,000
Toledo Edison	1,753,000	235,000
Tucson Electric	1,755,332	249,000
Union Electric	1,716,000	288,000
United Illuminating	1,237,850	173,000

Mr. Nowak. Mr. Sundquist.

Mr. Sundquist. Thank you, Mr. Chairman.

You speak of 50 employees. I am talking about non-nuclear now. You are talking about 50, 35. I understand there may be some key people. I also understand one of my colleagues, Mr. Flippo, said when he asked the question in the past, how many people you have left in those top jobs who have said, "I am leaving because of pay," it has been very few. So, it may be a problem in the future. We want to be aware of that.

Clearly, from the ratepayers' standpoint, it is my impression that they would be willing for a few people in the top levels of nuclear management to be upgraded, but I don't think they are going to be willing to take a large number. I think 50 may be too high.

Also, I don't think ratepayers would tolerate other employees under the top managers seeing their salaries also move up correspondingly.

Mr. Dean. The 50 was agency-wide, Mr. Sundquist.

Mr. Willis. That is correct. We have no need to do that. The market wouldn't tell us we have to do that.

Mr. Sundquist. In the nuclear area, there might be a handful who need to be above Executive Level I. You are talking about extremely high levels of expertise. I have been one of Admiral White's strongest supporters. When we are losing $5 million a day, his $355,000 income could be paid in just a fraction of a day.

Incidentally, the question of bringing our nuclear reactors back on board was raised earlier in the hearing. I do share the frustration of those who question handling of the investigation by the Nuclear Regulatory Commission into Admiral White's statements.

I want the record to reflect that equally serious questions have been raised about Congressional meddling in that controversy that may result in a slowdown of setting those reactors back on.

I think we in the Congress have to take our share of the responsibility for that delay. I didn't want that issue to go unaddressed.

Mr. Waters. Mr. Sundquist, you don't know how pleased we are to have this committee exert its oversight. We are home here. We think we are home. We are not at home at some other places we have been. We are glad to be back home, I assure you.

Mr. Sundquist. We are glad to have you here.

John, you and I don't disagree on a lot of things. I respect your opinion. But I don't agree with you on the structure of the Board. Could you name any Board of any size that operates like or emulates TVA's structure?

Mr. Waters. I can't name you a specific three-man Board. I have had research done on this that shows a number of different things. I would be glad to file it if you would like to see it. I will not imply that it is exactly like TVA, but there are some similarities. There are a number that aren't.

Mr. Sundquist. Well, I can't think of a single one that operates in such a way. Certainly if the strength of TVA could be found in its board structure, other corporations would be clamoring to copy TVA.

I understand this is not a profit-making venture. On the other hand, we do expect it to break even. That hasn't happened. That is the reason we are here today, because of not just yourself, but mistakes and errors of judgment in the past, of your predecessors.

I think more and more, taxpayers and ratepayers demand accountability. There lies the strength of staggering terms for a broad-based board.

I think there is a time, a learning curve there where people will appreciate what goes on in TVA and the progress that has been made.

Incidentally, I want Marvin Runyon to have a chance to succeed. I will make sure, if my efforts are successful, that any legislation would contain a transition language which would not preclude him from becoming the CEO.

Mr. Willis, you are in an uncomfortable position when we are talking about getting a CEO. I want to make sure that it has been suggested that one of the reasons we shouldn't pursue management reform of TVA is it may be unfair to you personally.

I think those of us who are supporting any sort of revision are trying to address the central question you mentioned earlier: What is necessary for TVA to carry out its mission effectively in the 1990s and beyond?

Do you think we are being inconsiderate in approaching this?

Mr. WILLIS. No, sir, not at all. I have observed Boards over the years. I worked with the TVA Boards as General Manager for over eight years. Boards are different. Every Board's nature is different. In general, the principle in TVA's that the TVA Board operates as a chief executive officer for the agency, in a collegial sense.

I operate more in a typical fashion of the chief operating officer. I think under any view of the arrangement, that same type of arrangement could work. The only thing that hurts me out of all this, Mr. Sundquist, is the comment that Congresswoman Lloyd made: You get what you pay for.

Mr. SUNDQUIST. That is what hurts me in the Congress, too.

Mr. WILLIS. I don't see that as any problem. I am very cognizant that, at this time in history, TVA's organizational structure, mission, how we do business, must be considered very carefully. We are too important to the region not to do that. Whatever is the best way to do business for the region is the way I will support and endorse.

Mr. SUNDQUIST. I want you to know none of this is personal. TVA is controversial. We are talking about its structure because we care about TVA.

Mr. Chairman, I can't tell you how critical TVA is to our region and the States involved. We are talking about jobs, our economic future, the most important things in people's lives. We have to be very careful how we move. We have to move deliberately. We have to make sure we are doing the right thing.

At the same time, we do have an obligation to try to make some changes to make it operate more effectively. The criticisms that I have are not necessarily and very seldom are criticisms of the present Board so much as what has happened in the past.

Some horrendous decisions were made in the past. Other agencies made the same horrendous decisions in terms of estimating energy needs. But we are here to try to address some of the serious problems that I'm convinced can be overcome at TVA. Thank you.

Mr. Nowak. Before I call on Mr. Hastert, let me just ask one other question that came to mind. When we talk about the rate charges, my understanding—the question was asked before—what the residential average is, it is 5.6 cents per kilowatt-hour; is that correct?

Mr. Dean. 5.6 cents is the average residential rate.

Mr. Nowak. I assume that is a mix of hydro and fossil, coal-fired?

Mr. Dean. Yes, sir. The hydro is as much as possible, credited to the residential customers.

Mr. Nowak. What then would be the "average" rate to your industrial or business customers?

How about system average rate, retail? Do you know that?

Mr. Dean. 4.5 cents for large industrials. It varies so much, Mr. Chairman, with the size of the customer, the nature of their load. It is not an easy question to generalize about. We will be glad to supply a complete set of rates.

Mr. Nowak. I would appreciate that.

[The following was received from Mr. Dean:]

The following information about typical electric bills paid by TVA's residential and commerical and industrial customers reflects a 6 percent reduction in rates, effective January 2, 1988. The rate rollback resulted from the settlement of a contract dispute between TVA and the Department of Energy, and was formally approved by the TVA Board on December 21, 1987.

Average monthly residential use in the Tennessee Valley region is 1,000 kilowatthours. The selected commerical and industrial bills illustrate the range from small businesses to large directly served customers that use enormous amounts of power.

MONTHLY ELECTRIC BILLS FOR TVA RESIDENTIAL CUSTOMERS

Monthly kWh	Rates effective,	
	October 1, 1987	January 2, 1988
500	$31.34	$29.59
1,000	59.52	56.03
2,000	115.89	108.91
4,000	240.41	226.45

MONTHLY ELECTRIC BILLS FOR TVA COMMERICAL AND INDUSTRIAL CUSTOMERS

Monthly use	Rates effective	
	October 1, 1987	January 2, 1988
Small (20kW, 4,000 kWh)	$264.55	$251.47
Medium (1,000 kW, 400,000 kWh)	22,014.40	20,989.75
Large (20,000 kW, 14,000,000 kW)	620,980.000	593,576.00

Mr. Nowak. Also, while we are looking for information, could you supply the committee a schedule of your bond indebtedness, when that falls due?

Mr. Dean. Yes, sir.

[The following was received from Mr. Dean:]

This information is supplied to summarize TVA's bonded indebtedness.

TVA POWER BONDS

ALL POWER BOND ISSUES SOLD 11-60 THROUGH 9/87

	Number of Issues	Amount ($Millions)	Annual Interest ($Millions)	Average Interest Rate
Bonds Sold to Public	22	2,225.0	164.3	7.384%
Bonds Sold to FFB	54	18,225.0	1,858.6	10.198%
Total	76	20,450.0	2,022.9	9.892%

POWER BOND ISSUES CURRENTLY OUTSTANDING

	Number of Issues	Amount ($Millions)	Annual Interest ($Millions)	Average Interest Rate
Bonds Sold to Public	11	1,380.0	100.1	7.255%
Bonds Sold to FFB	46	16,125.0	1,678.9	10.412%
Total	57	17,505.0	1,779.0	10.163%

TVA POWER BONDS
(Sold to Public)

Sale Date	Issue No.	Bond Description	Coupon (%)	Amount $Millions	Interest Cost To TVA	Initial Offering Yield to Investor	Term Years	Denom. of Coupon Bonds	Non-Refund Period	Call Premium: Initial Premium	Call Premium: Annual Decline	Call Premium: At First Call Date	Call Premium: At First Call Rate	Current Status of Bond Issue
11-15-60	1	1960 Series A 4.40's of 1985	4.400%	50	4.44%	4.40%	25	1	7 1/2 yrs	6.00%	.25 of 1%	5-15-68	4.25%	Matured
6-28-61	2	1961 Series A 4 5/8's of 1986	4.625%	50	4.69%	4.64%	25	1	7 1/2 yrs	6.00%	.25 of 1%	1-1-69	4.25%	Matured
1-24-62	3	1962 Series A 4 1/2's of 1987	4.500%	45	4.52%	4.50%	25	1	7 1/2 yrs	6.00%	.25 of 1%	8-1-69	4.25%	Matured
5-16-67	4	1967 Series A 5.70's of 1992	5.700%	70	5.77%	5.70%	25	5	5 yrs.	6.00%	.25 of 1%	5-15-72	4.75%	Outstanding
11-1-67	5	1967 Series B 6 3/8's of 1992	6.375%	60	6.43%	6.38%	25	5	5 yrs.	6.00%	.25 of 1%	11-1-72	4.75%	Outstanding
6-3-69	6	1969 Series A 8.00's of 1974	8.000%	100	7.94%	7.75%	5	1 & 5*	(Non-redeemable for life of bonds)					Matured
10-7-69	7	1969 Series B 8 1/4's of 1994	8.250%	100	8.32%	8.25%	25	5	5 yrs.	6.00%	.25 of 1%	10-15-74	4.75%	Called**
3-17-70	8	1970 Series A 9.00's of 1995	9.000%	100	9.00%	8.90%	25	5	5 yrs.	8.40%	.35 of 1%	3-15-74	6.65%	Called**
6-16-70	9	1970 Series B 9 1/4's of 1995	9.250%	50	9.29%	9.20%	25	1 & 5*	5 yrs.	8.40%	.35 of 1%	6-15-75	6.65%	Called**
6-16-70	10	1970 Series C 8 3/4' of 1975	8.750%	50	8.66%	8.50%	5	1 & 5*	(Non-redeemable for life of bonds)					Matured
7-20-71	11	1971 Series A 7 1/4's of 1976	7.250%	100	7.31%	7.20%	5	1 & 5*	(Non-redeemable for life of bonds)					Matured
10-19-71	12	1971 Series B 7.30's of 1996	7.300%	150	7.36%	7.30%	25	1 & 5	5 yrs.	8.40%	.35 of 1%	10-1-76	6.65%	Outstanding
1-18-72	13	1972 Series A 7.00's of 1997	7.000%	150	7.04%	6.96%	25	1 & 5*	5 yrs.	8.40%	.35 of 1%	1-1-77	6.65%	Outstanding
4-20-72	14	1972 Series B 7.35's of 1997	7.350%	150	7.41%	7.35%	25	1 & 5*	5 yrs.	8.40%	.35 of 1%	5-1-77	6.65%	Outstanding
7-18-72	15	1972 Series C 7.35's of 1997	7.350%	150	7.39%	7.35%	25	1 & 5*	5 yrs.	8.40%	.35 of 1%	7-1-77	6.65%	Outstanding
10-17-72	16	1972 Series D 7.40's of 1997	7.400%	150	7.41%	7.37%	25	1 & 5*	5 yrs.	8.40%	.35 of 1%	10-1-77	6.65%	Outstanding
1-16-73	17	1973 Series A 7.35's of 1998	7.350%	100	7.39%	7.35%	25	1 & 5*	5 yrs.	8.40%	.35 of 1%	1-1-78	6.65%	Outstanding
4-17-73	18	1973 Series B 7.35's of 1998	7.350%	150	7.39%	7.35%	25	1 & 5*	5 yrs.	8.40%	.35 of 1%	4-1-78	6.65%	Outstanding
7-17-73	19	1973 Series C 7 3/4's of 1998	7.750%	150	7.81%	7.77%	25	1 & 5*	5 yrs.	8.40%	.35 of 1%	7-1-78	6.65%	Outstanding
10-16-73	20	1973 Series D 7.70's of 1998	7.700%	100	7.75%	7.70%	25	1 & 5*	5 yrs.	8.40%	.35 of 1%	10-1-78	6.65%	Outstanding
1-22-74	21	1974 Series A 8.05's of 1999	8.050%	100	8.10%	8.05%	25	1 & 5*	5 yrs.	8.40%	.35 of 1%	1-1-79	6.65%	Called**
4-16-74	22	1974 Series B 8.10's of 1979	8.100%	100	8.20%	8.10%	5	1 & 5*	(Non-redeemable for life of bonds)					Matured

Note: For all issues registered bonds are available in denominations of $1,000 or any multiple.

*Bonds are listed on the New York Stock Exchange.

**Called for early redemption:

1970 Series A redeemed on 12-15-76 at a price of 106.30 plus accrued interest.
1970 Series B redeemed on 12-15-76 at a price of 106.30 plus accrued interest.
1969 Series B redeemed on 10-15-86 at a price of 101.75 plus accrued interest.
1974 Series A redeemed on 10-15-86 at a price of 104.20 plus accrued interest.

TVA POWER BONDS
(Sold to Federal Financing Bank)

Sale Date	Issue No.	Bond Description	Amount $Millions	Interest Cost To TVA	Term (Years)	Non-Redeemable Period (Years)	Call Premium Initial Premium	Call Premium Yearly Decline	Call Premium Date	Call Premium Rate	Current Status of Bond Issue
10-8-74	23	1974 Series C 8.50's due 10-31-79	$300	8.500%	5	(Nonredeemable for life of bond)					Matured
1-30-75	24	1975 Series A 8.050's due 1-31-90	200	8.050%	15	10	8.050%	2/29	1-31-85	2.50%	Called*
3-27-75	25	1975 Series B 8.700's due 3-31-00	100	8.700%	25	10	8.700%	2/49	3-31-85	5.15%	Called*
5-29-75	26	1975 Series C 8.350's due 5-31-88	200	8.350%	13	10	8.350%	2/25	5-31-85	1.67%	Called*
7-31-75	27	1975 Series D 8.470's due 7-31-00	200	8.470%	25	10	8.470%	2/49	7-31-85	5.01%	Called*
10-31-75	28	1975 Series E 8.485's due 10-31-00	300	8.485%	25	10	8.485%	2/49	10-31-85	5.02%	Called*
2-27-76	29	1976 Series A 8.175's due 2-28-01	300	8.175%	25	10	8.175%	2/49	2-28-86	4.84%	Called*
9-30-76	30	1976 Series B 7.970's due 11-30-01	400	7.970%	25+	10	7.970%	2/49	11-30-86	4.72%	Outstanding
12-14-76	31	1976 Series C 7.625's due 1-31-02	200	7.625%	25+	10	7.625%	2/49	1-31-87	4.51%	Outstanding
2-28-77	32	1977 Series A 7.975's due 2-28-02	300	7.975%	25	10	7.975%	2/49	2-28-87	4.72%	Outstanding
5-31-77	33	1977 Series B 7.935's due 5-31-02	400	7.935%	25	10	7.935%	2/49	5-31-87	4.70%	Outstanding
10-31-77	34	1977 Series C 8.000's due 10-31-02	400	8.000%	25	10	8.000%	2/49	10-31-87	4.73%	Outstanding
1-31-78	35	1978 Series A 8.375's due 1-31-03	400	8.375%	25	10	8.375%	2/49	1-31-88	4.96%	Outstanding
1-31-79	36	1979 Series A 9.296's due 2-28-89	500	9.296%	10+	(Nonredeemable for life of bond)					Outstanding
5-31-79	37	1979 Series B 9.155's due 5-31-87	500	9.155%	8	(Nonredeemable for life of bond)					Matured
8-31-79	38	1979 Series C 9.195's due 8-31-04	500	9.195%	25	10	9.195%	2/49	8-31-89	5.44%	Outstanding
10-31-79	39	1979 Series D 10.545's due 10-31-04	400	10.545%	25	10	10.545%	2/49	10-31-89	6.24%	Outstanding
1-31-80	40	1980 Series A 11.225's due 1-31-05	500	11.225%	25	10	11.225%	2/49	1-31-90	6.64%	Outstanding
3-31-80	41	1980 Series B 12.955's due 3-31-05	500	12.955%	25	10	12.955%	2/49	3-31-90	7.67%	Outstanding
6-06-80	42	1980 Series C 10.475's due 6-30-05	500	10.475%	25+	10	10.475%	2/49	6-30-90	6.20%	Outstanding
8-06-80	43	1980 Series D 10.890's due 8-31-05	500	10.890%	25+	10	10.890%	2/49	8-31-90	6.45%	Outstanding
11-04-80	44	1980 Series E 12.425's due 11-30-05	500	12.425%	25+	10	12.425%	2/49	11-30-90	7.35%	Outstanding
2-06-81	45	1981 Series A 12.735's due 3-31-11	500	12.735%	30+	10	12.735%	2/59	3-31-91	8.42%	Outstanding
4-03-81	46	1981 Series B 12.925's due 4-30-11	500	12.925%	30+	10	12.925%	2/59	4-30-91	8.54%	Outstanding
6-05-81	47	1981 Series C 13.255's due 6-30-11	500	13.255%	30+	10	13.255%	2/59	6-30-91	8.76%	Outstanding
9-04-81	48	1981 Series D 14.905's due 9-30-11	300	14.905%	30+	10	14.905%	2/59	9-30-91	9.85%	Outstanding
12-04-81	49	1981 Series E 13.035's due 12-31-11	650	13.035%	30+	10	13.035%	2/59	12-31-91	8.62%	Outstanding

*Called for early redemption.
1975 Series A redeemed on 8-25-86 at price of 101.67 plus accrued interest.
1975 Series B redeemed on 5-18-86 at price of 104.79 plus accrued interest.
1975 Series C redeemed on 8-25-86 at price of 101.00 plus accrued interest.
1975 Series D redeemed on 5-18-86 at price of 104.84 plus accrued interest.
1975 Series E redeemed on 5-18-86 at price of 104.85 plus accrued interest.
1976 Series A redeemed on 8-31-86 at price of 104.67.

TVA POWER BONDS
(Sold to Federal Financing Ban

Sale Date	Issue No.	Bond Description	Amount $Millions	Interest Cost To TVA	Term (Years)	Non-Redeemable Period (Years)	Call Premium Initial Premium	Call Premium Yearly Decline	Call Premium Date	Call Premium Rate	Current States of Bond Issue
3-05-82	50	1982 Series A 13.565's due 4-30-12	700	13.565%	30+	10	13.565%	2/59	4-30-92	8.970%	Outstanding
5-07-82	51	1982 Series B 13.575's due 5-31-12	300	13.575%	30+	10	13.575%	2/59	5-31-92	8.970%	Outstanding
7-09-82	52	1982 Series C 14.125's due 7-31-12	350	14.125%	30+	10	14.125%	2/59	7-31-92	9.340%	Outstanding
9-24-82	53	1984 Series D 11.945's due 9-30-12	100	11.945%	30+	10	11.945%	2/59	9-30-92	7.900%	Outstanding
11-19-82	54	1982 Series E 10.725's due 11-30-12	200	10.725%	30+	10	10.725%	2/59	11-30-92	7.090%	Outstanding
1-06-83	55	1983 Series A 10.575's due 1-31-13	150	10.575%	30+	10	10.575%	2/59	1-31-93	6.990%	Outstanding
3-03-83	56	1983 Series B 10.575's due 3-31-13	150	10.575%	30+	10	10.575%	2/59	3-31-93	6.990%	Outstanding
5-12-83	57	1983 Series C 10.425's due 5-31-13	100	10.425%	30+	10	10.425%	2/59	5-31-93	6.890%	Outstanding
3-25-83	58	1983 Series D 11.685's due 8-31-13	250	11.685%	30+	10	11.685%	2/59	8-31-93	7.720%	Outstanding
11-03-83	59	1983 Series E 11.905's due 1-31-14	150	11.905%	30+	10	11.905%	2/59	1-31-94	7.870%	Outstanding
1-05-84	60	1984 Series A 12.055's due 1-31-14	100	12.055%	30+	10	12.055%	2/59	1-31-94	7.970%	Outstanding
1-17-85	61	1985 Series A 11.695's due 1-31-15	100	11.695%	30+	*	-	-	-	-	Outstanding
3-20-85	62	1985 Series B 12.095's due 3-31-15	150	12.095%	30+	*	-	-	-	-	Outstanding
5-22-85	63	1985 Series C 10.945's due 5-31-15	150	10.945%	30+	*	-	-	-	-	Outstanding
7-25-85	64	1985 Series D 10.725's due 7-31-15	500	10.725%	30+	*	-	-	-	-	Outstanding
9-18-85	65	1985 Series E 10.705's due 9-30-15	200	10.705%	30+	*	-	-	-	-	Outstanding
1-16-86	66	1986 Series A 9.695's due 2-29-16	150	9.685%	30+	*	-	-	-	-	Outstanding
4-21-86	67	1986 Series B 7.285's due 4-30-16	600	7.285%	30+	*	-	-	-	-	Outstanding
6-15-86	68	1986 Series C 7.825's due 6-30-16	600	7.825%	30+	*	-	-	-	-	Outstanding
8-25-86	69	1986 Series D 7.315's due 8-31-16	900	7.315%	30+	*	-	-	-	-	Outstanding
9-26-86	70	1986 Series E 7.765's due 9-30-16	175	7.765%	30+	*	-	-	-	-	Outstanding
1-24-86	71	1986 Series F 7.575's due 11-30-16	200	7.575%	30+	*	-	-	-	-	Outstanding
1-14-87	72	1987 Series A 7.495's due 1-31-17	200	7.495%	30+	*	-	-	-	-	Outstanding
4-02-87	73	1987 Series B 7.935's due 4-30-17	200	7.935%	30+	*	-	-	-	-	Outstanding
5-11-87	74	1987 Series C 8.755's due 11-17-03	500	8.755%	16-1/2	*	-	-	-	-	Outstanding
3-27-87	75	1997 Series D 8.945's due 2-17-03	200	8.945%	15-1/2	*	-	-	-	-	Outstanding
7-24-87	76	1997 Series E 9.565's due 5-15-03	300	9.565%	15-1/2	*	-	-	-	-	Outstanding

*Bonds may be prepaid at any time by paying to the FFB an amount equal to the present value of future interest and principal payments discounted at the then current interest rate.

Mr. **Nowak**. I am sure your accounting department has a schedule of that for the committee's work.

Mr. Hastert.

Mr. **Hastert**. Thank you, Mr. Chairman.

As somebody in the testimony earlier today said, I think the terminology was non-Valley members don't really understand the TVA. I have to agree. I have learned some things here today. Not only are you an electric utility, vis-a-vis a non-private but a public electric utility, but you are really kind of a regional government, aren't you? You deal with agriculture, regional development?

Mr. **Dean**. The development agency would be a good word for it.

Mr. **Hastert**. The three man board, it is a lot of responsibility. Really, it is a diverse area. Not being facetious, but it is almost a kingdom that you work over. It is really diverse, isn't it?

Mr. **Dean**. It is equivalent to many large corporations at 30–odd thousand employees scattered around over seven states doing all kinds of interesting things.

Mr. **Hastert**. Would you prioritize the role of the TVA in any way? Could you do that? Is it electric generation? Economic development? Agricultural stabilization? What?

Mr. **Dean**. The thing that affects the most people by far is the fact we provide electricity to some eight million people.

Mr. **Hastert**. Eight million?

Mr. **Dean**. Yes. Those eight million are each directly affected by the things that happen to our power system. From these eight million people we collect about $5 billion.

From the economic standpoint, there is no way to down play the tremendous importance of the power system. However, as was pointed out by Director Waters, we operate a river system which we constantly are monitoring, and it is a very important transportation link and source of water and recreation. It is very important to the valley. That river is more important than a lot of people realize who tend to take it for granted. Power is very important, but the river system is important.

A lot of things we do are important to the nation as a whole—the fertilization program, the Land Between The Lakes.

Mr. **Hastert**. The three man governing board, you are responsible for setting rates and then governing all other aspects too. Is that correct?

Mr. **Dean**. That is correct.

Mr. **Hastert**. Rate making, do you have rate making procedures you go through?

Mr. **Dean**. Yes sir. We are required to set rates because of our bond covenants, to cover our costs. In July—our fiscal year starts October 1st—in the summertime, our office of power representatives present to us the needs of the power system, how much they expect to spend for coal, interest, labor, all the things they have to buy. Then they are told what kind of rate we would have to set following October 1st, to cover those costs. We release all that information in July, and allow a month for public comment.

Mr. **Hastert**. Let me stop you a second. Basically, you are basing rates on variable costs?

Mr. **Dean**. Things like coal are variable. Interest is variable. Yes sir, a lot of them are variable.

Mr. Hastert. Your fixed costs, the electric rating plants——

Mr. Dean. That is in there too—depreciation. We have to depreciate our plants just like any other business.

Mr. Hastert. Talking about the hydroelectric and your fossil fueled plants, that they are the most efficient in the country, is there a cross-subsidization there in your electric system? Do your hydroelectric plants cover costs, electric or nuclear?

Mr. Dean. The hydro-system is used for peakshading. We operate our hydro-system to take care of the heavy loads that come during certain times of the day.

Mr. Hastert. What we call in the North, gas fired peakers?

Mr. Dean. Yes. We would rather use the hydro for that. We use the hydro for the peaks. Our coal-fired plants and nuclear, when they are on, are for base load.

Mr. Hastert. That is base load? Your efficiency in the hydro is not all the time?

Mr. Dean. We don't waste any of it, but we use it.

Mr. Hastert. It is interesting. If you brought your nuclear plants on line, the six nuclear plants—is that correct, six?

Mr. Dean. We have five licensed at this point and others that aren't finished.

Mr. Hastert. Are their licenses pending?

Mr. Dean. Just the five we have licensed. We have no current applications before the NCR.

Mr. Hastert. Those are not running at this time, is that correct?

Mr. Dean. That is correct.

Mr. Hastert. It is your intent to bring those on line?

Mr. Dean. Yes sir.

Mr. Hastert. Would you have excess capacity when you did bring those on line?

Mr. Dean. We would have to see. By the time they got on line, we would have to see what our loads were. We would probably back off some of our least efficient coal fired plants.

Mr. Hastert. So then you would be able to mix your generating capacities?

Mr. Dean. Yes sir.

Mr. Hastert. For instance, if you brought all your nuclear plants on line, what would be your kilowatt potential there?

Mr. Dean. It would total about 30,000 megawatts.

Mr. Hastert. Megawatts?

Mr. Dean. Yes.

Mr. Hastert. I don't want to be speaking heresy here at all, but forgive me, I am a new member of Congress just going through the drill here. Has it ever occurred to anybody they maybe ought to separate the power system? It seems like it is pretty intricate off the other services at TVA.

Mr. Dean. That has been discussed quite frequently. At TVA, the mixture of the development agency and the power system has served TVA very well, and it still does. For instance, to give you an example, our environmental group is over in the Office of Natural Resources. The environmental group in the Office of Natural Resources does the environmental checks for the power system and are paid out of power funds for doing that work.

In other words, there is a lot of interplay between the resource development end of the business and the power system, and we have never found any really good reason for splitting them.

Mr. **Hastert**. Let me go on one step further. Is there any cross-subsidization between power funds, revenue generated from power and other programs in TVA?

Mr. **Dean**. We try to keep a strict accounting. When the power system buys things from the non-power, they pay for it and vice versa. We try to keep an accurate accounting of federally appropriated funds, which is about $100 million total, against the use of——

Mr. **Hastert**. Do you do the auditing? We are subject to the—the GAO comes in and looks at us.

Mr. **Willis**. We have an independent auditor also that looks carefully at our statute. The bond companies are strict in that we cannot use power funds for non-power activity.

Mr. **Hastert**. Does Price Waterhouse come?

Mr. **Willis**. Coopers and Lybrand is our independent auditory at this time.

Mr. **Hastert**. Are your rates determined on management audits, construction cost audits?

Mr. **Willis**. No sir. Are you talking about the power rates? The power rates are determined by the information provided to break even in a system. Our auditor looks to see our books and accounts are fairly representative in doing that. They are very much involved in the rate issue to be sure that those issues are fairly represented.

Mr. **Hastert**. Basically your power costs or the costs to the customer, the rate user, basically represents what your bottom line cost is?

Mr. **Willis**. Yes sir.

Mr. **Hastert**. There is no profit motive? You don't have stockholders? You have bonds out and you have capital out there. You recover that cost. So basically, one of the dividends between you and really a private corporation, utility corporation, if you will, is that its chief executive officer on one of those companies is paid on how he can return dollars back to the stockholders as opposed to your—you are a public agency. Interesting.

Thank you, Mr. Chairman. I appreciate your time.

Mr. **Waters**. Let me make one comment. There is another difference I don't think we made clear here about in the way we operate. That is, every one of of our board meetings—and we meet once or twice every month—is held open to the public. In every transaction we make, we are subject to the sunshine law. We do it right out in front of the public. At any meeting we have, anybody that wants to come in and tell us anything—can come in and speak to us about any issue whatsoever or ask us any question. And they do.

So we are in a fish bowl—which we properly should be.

Mr. **Hastert**. Thank you.

Thank you, Mr. Chairman.

Mr. **Nowak**. Thank you, Mr. Hastert.

We have one other question that I have at the present time.

There was reference made that perhaps there should be a window of opportunity for the new chairman and the new board to operate and look at these problems. I assume that one of the criteria developed for the window would be the solving, or at least the elimination of some of the problems with the nuclear plants that are now being remediated, if I can use that term.

Can you give me any idea as to the length of time and when these six non-operating plants would be, in your estimate, available for the production of power?

Mr. **Dean**. The Office of Nuclear Power has predicted that we can heat up the one unit at Sequoyah Nuclear Plant right after the first of the year, heat up, that is, by mechanical means. It will be ready to go critical by about February. That is the latest estimate.

Mr. **Nowak**. That is one of the six?

Mr. **Dean**. Yes sir. One of the five licensed reactors.

Assuming that comes to pass, several months after that, the other reactor in that same plant, in that same complex, should be ready. Then hopefully, before this year is——

Mr. **Nowak**. That would be a second?

Mr. **Dean**. Yes sir. A third one would be ready at a different plant. Beyond that, it is hard to predict these things exactly. Things keep coming up that you don't expect. Those are the best estimates I could give you today.

Mr. **Nowak**. Do you have any engineering studies on the others as well?

Mr. **Dean**. Oh, yes sir.

Mr. **Nowak**. Could you submit to us a timetable that you mentioned, and also a timetable as best estimated now by your engineering people?

Mr. **Dean**. Yes sir.

Mr. **Nowak**. We will make that part of the record.

[The following was received from Mr. Dean:]

TVA is projecting the restart of three of its five licensed nuclear units in 1988. A February 1988 restart date is anticipated for unit 2 of Sequoyah Nuclear Plant, located near Chattanooga, Tennessee. More detailed updates will be provided to the Congress as they become available.

System alignment is now underway at unit 2 of Sequoyah. During this work, plant personnel will confirm that plant systems are aligned to normal operating configurations. Following this verification, which is expected to last several weeks, TVA will be ready to begin the nonnuclear heatup of plant systems in January.

Pumpt heat will be used to heat water to normal operating temperatures and pressures. Extensive testing and equipment checks will be performed during this time, and any problems that are identified will be corrected. After system heatup, TVA will be ready to go to criticality in February, pending the approval of the Nuclear Regulatory Commission.

Efforts are underway to prepare a restart schedule for unit 1 at Sequoyah. Plans are for the unit 1 reactor to be returned to service several months after unit 2 achieves 100 percent power. Also projected for restart in 1988 is unit 2 of Browns Ferry Nuclear Plant near Decatur, Alabama. The Browns Ferry Outage Management Group is coordinating activities required to restart unit 2, including the environmental qualifications of safety-related electrical equipment, reestablishing the design baseline and upgrading plant operating and maintenance procedures.

Preventative and corrective maintenance activities are in progress on units 1 and 3 at Browns Ferry, including equipment and systems cleaning, refurbishing and modifications. Work is continuing at the two-unit Watts Bar Nuclear Plant near Spring City, Tennessee. Construction also is continuing at the two unit Bellefonte Nuclear Plant near Hollywood, Alabama. Projections are that Bellefonte unit 1 will be ready for commercial operation in 1994 and unit 2 will be ready in 1996.

Mr. **Nowak**. If there are no further questions, at this time, I would just mention to you that because of time constraints here at the end of the session, we probably won't be able to do anything in the time we have left. In fact, I want to take that time to try to gather and fill in all the gaps that I am sure we will have after reviewing all of this testimony. Perhaps, as I mentioned to the other group of witnesses, we will hold the record open and perhaps be corresponding to you or directly calling yourselves or your staffs for further information to try to get a complete record upon which to act.

I want to thank you for your candidness with us and certainly for the time that you have spent with us. We know we will be able to call upon you and I am sure we will in the near future.

Mr. DEAN. Thank you, Mr. Chairman. We will be glad to supply anything you want.

Mr. NOWAK. Thank you.

[The prepared statements of Messrs. Dean, Waters, and Willis follow:]

REMARKS BY C. H. DEAN, JR., CHAIRMAN
TENNESSEE VALLEY AUTHORITY
BEFORE THE SUBCOMMITTEE ON WATER RESOURCES
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES
DECEMBER 8, 1987, WASHINGTON, D.C.

Mr. Chairman, members of the Subcommittee, good afternoon. My name is Charles H. Dean and I am Chairman of the Tennessee Valley Authority.

With me are two other representatives of TVA--Director John B. Waters and General Manager William F. Willis. We appreciate this opportunity to provide testimony and to respond to your questions about TVA's organizational structure.

My statement is a personal statement, as is Director Waters'. Mr. Willis' presentation represents an agency perspective.

My personal opinion is that--if nothing is done to permit the hiring of qualified executives at market rates--it doesn't make much difference whether TVA is under the control of a committee, as is the present situation, or a single chief executive officer appointed by a part-time board.

We have asked Congress for help in solving the pay cap problem many times since I have been Chairman of TVA. As Board members, we have never asked for raises for ourselves, but only for permission to pay a few executives more than we make. ①

TVA must be able to pay competitive salaries if we realistically expect to hire and retain highly qualified people who have the top-level management experience to lead crucial programs.

Having said that, it is my personal opinion that the plan proposed by the Southern States Energy Board subcommittee on organization has considerable merit. That subcommittee, chaired by Federal Express Chairman Fred W. Smith, proposes a Chief Executive Officer and nine-person, part-time Board for TVA.

This arrangement is very similar to that found in most of America's large corporations. And certainly--as America's largest producer of electric power, with sales that amount to more than five billion dollars a year . . . as a national laboratory . . . and as a partner in regional development--TVA is a large corporation.

On the other hand, you will not find one Fortune 500 firm or other large corporation that operates under TVA's system of collegial management.

In fact, as Alex Radin, former Executive Director of the American Public Power Association, has pointed out, Ontario Hydro--another public agency "which was established in 1906, and which in many respects served as a model for TVA"--was reorganized during the last decade. Ontario Hydro transformed its management structure from a three-member commission to a CEO and part-time board of directors.

At Ontario Hydro, it took almost a year to work out a conversion from an organization run by committee to one run by a CEO. And that's understandable, because such fundamental changes should not be done in haste.

If the TVA Act is changed, the duties and responsibilities of the members of the Board must be clearly spelled out to assure that Board members do not interfere in the proper actions of a Chief Executive Officer.

Surely a Board of the size and diversity which is envisioned could be entrusted with setting the pay scales of the employees and managers without interference from external regulations.

I would also caution against setting restrictive requirements for geographic representation on the TVA Board. Just as TVA should not be limited in competing for the best management talent, the President should not be limited in seeking Board members whose background, experience, and commitment to public service can truly enhance TVA's contributions to the region and the Nation.

# # #

Read

REMARKS BY JOHN B. WATERS, DIRECTOR
TENNESSEE VALLEY AUTHORITY
BEFORE THE SUBCOMMITTEE ON WATER RESOURCES
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES
DECEMBER 8, 1987 WASHINGTON, D.C.

Mr. Chairman, Members of the Subcommittee, I am grateful for the opportunity to take part in this hearing and to present my personal views on the structure of TVA's Board of Directors and the appropriateness of changing that structure at this time.

I genuinely appreciate the advice and recommendations TVA receives from anyone whose motivation is to help this agency become more effective in serving the people of the Tennessee Valley region and the Nation.

Over the years, TVA has received a lot of advice. For some members of this Subcommittee--and for others who have had a long-time interest in TVA--the examination of TVA's organizational structure hardly comes under the heading of new business.

The structure of TVA's three-member, full-time Board has been questioned, debated, and investigated since TVA's creation as a federally-owned corporation.

When TVA was established in 1933, what we may generally think of as the "modern" corporate board with part-time directors was not a new concept. In fact, that model had existed in the private sector since the 1800s and had already been adopted by many of the 90 or so government corporations that existed at the time of TVA's founding.

Both houses of Congress and President Roosevelt agreed that a typical corporate governance structure was not what TVA needed, and succeeding Presidents and Congressional leaders who have examined the pros and cons of TVA's Board structure have not seen fit to change it.

Over the years, the most frequently suggested change in TVA's board structure has been to enlarge the board and have members serve on a part-time basis.

Proponents have claimed that a larger board would be more representative of diverse interests within the region and could be more accountable to the public.

Opponents of a larger, part-time Board have claimed that such a change may well result in a reduction of individual commitment to the board and the agency. They point out that Board members' leadership and motivation are ultimately more important than the number of people on the Board.

And they caution that--by diminishing each director's responsibility and incentive to carry out the complex tasks--the board could become a "rubber stamp" for a strong executive and an unwieldy bureaucracy.

Even though enlarging the Board has been frequently suggested through the years, other suggestions have been made to move TVA in just the opposite direction . . . to reduce the number of directors to one.

So if we're looking for a consensus about the proper structure of governing boards--either in history or among students and practitioners of public administration--it may be an endless search. Academic researchers who have studied the size and structure of Federal corporate boards are also divided on which structures work best.

Maybe the only definitive statement we can make is that government-owned corporations have functioned successfully--and unsuccessfully--with both full-time and part-time boards.

I believe that current criticism of TVA's board structure--and calls for reform--should be examined in light of ~~this~~ history. And I am yet to be persuaded that making changes in organizational structure is necessarily the same thing as making improvements in performance.

I think we many all agree that TVA's performance is the central issue before us today . . . specifically the performance of TVA's nuclear program. the issue is performance

~~My colleagues and I realize tha~~t we are not here discussing organizational changes because six of TVA's fossil power units rank among the Nation's top twenty in efficient perform~~ance.~~ ①

We are not here because TVA is ahead of schedule on its AFBC project--which is a major national demonstration in cleaner coal technology and public and private sector cooperation.

We are not here because TVA's ~~management of the~~ National Fertilizer Development Center keeps it TVA a world leader in technology transfer ②

And we are not here because TVA manages what is often cited as the best-run river and reservoir system in the world. ③ ~~or because the~~ ambassadors of two African nations met with us in Knoxville last month--because they know they can count on TVA to share technical know-how in resource development.

Let me assure you that no one here is more concerned about improving TVA's nuclear program and seeing that it sets similarly positive records of performance.

That's why the board initiated a nuclear recovery program designed to bring those plants back into full operation and full compliance with the highest standards of safety and performance. ④

We've been studying just what went wrong and why. And that includes ~~the~~ Waters fact that--with the constraints of the Federal pay cap--we simply could not hire or retain nearly enough senior nuclear managers with the required skills and experience to manage a program as large as TVA's.

As you have heard, the pay cap remains a critical concern. Salary surveys of top managers employed at neighboring utilities simply confirm what we have already learned from exit interviews with our own people: the free market has no respect for the Federal pay cap.

It is ironic that this problem has become so acute at a time of deregulation and a relaxation of some government restrictions affecting private industry.

At a time when federal agencies are being advised to "run government more like a business," TVA's business-oriented power system--a system that pays its own way without one penny of subsidy from the taxpayers--is being forced to "run more like the government."

Just as surely, we have had other serious problems with our nuclear program. But it is hard to attribute them, individually or collectively, to the size of the Board.

The nuclear power industry is dominated by firms that have part-time boards. Some are having good experiences, and we are benefiting from building closer working relationships with some of the best nuclear utilities in the country.

But other firms with large, part-time boards are experiencing their own major nuclear problems. There just does not seem to be any logical connection between corporate board size and structure and the success of nuclear programs.

One thing is certain about the current structure of TVA's three-member Board. Each new appointment has the effect of reconstituting the Board by providing a new mixture of strengths and a new perspective on issues.

By coincidence, earlier today the Senate Environment and Public Works Committee opened its hearings on the confirmation of a man who has been nominated as TVA's next Board member and Chairman . . . Marvin Runyon.

Marvin Runyon's nomination has attracted national attention, as well as tremendous anticipation within TVA and the Valley region. As a leader in the private sector, he has earned a remarkable reputation for his effectiveness as a manager.

I submit to you that he should be given the chance to put his considerable talents to work at TVA without the complication of a simultaneous reorganization of the Board. He should be given a chance to succeed.

And I submit that TVA should be given the chance to see the results of the nuclear recovery program and other significant changes the current Board has made over the past two years.

We have taken the controversial but absolutely necessary step of bringing in some of America's top nuclear managers as contract employees to help restore our nuclear program.

We have established a highly professional Office of the Inspector General that already has proved to be of tremendous value.

We have instituted new cost containment efforts in the Office of Power. And we have taken other steps to improve the way TVA does business--the way we handle financial matters . . . the way we examine policy and program options . . . and the way we communicate with external audiences and with our own employees.

We need the time to let these initiatives work--and the time to judge their effectiveness.

I am not against change, and in my three years on the Board I have proposed many changes in TVA. I think the changes I have just mentioned can have a very positive impact. But let me remind you that organizational change for the sake of change doesn't have a great track record.

I am going to work with Marvin Runyon to determine what further changes are needed to regain the confidence of the Congress, the public, and the people of TVA. The new TVA Board may be back before you requesting and recommending changes. And I think you will find this Board to be very receptive to anything that will truly help TVA enhance its performance.

I grew up with TVA, and I feel strongly that in many ways I am a product of TVA. My familiarity with TVA goes back long before my appointment to the Board. I am deeply indebted to this agency for many things that have improved my life and had a positive impact on the lives of my family and neighbors.

I believe there is still a real need for TVA. I took an oath to support the TVA Act--and I took it seriously. I want TVA to succeed, and I want to do my best to help it succeed.

There is work yet to be done to reach the full potential of that ideal envisioned by Franklin Roosevelt and George Norris . . . "a corporation clothed with the power of government, but possessed of the flexibility and initiative of a private enterprise."

I look forward to working with Congress, with my Board colleagues, and with the people of the region to make sure TVA lives up to its legacy . . . and to its potential for the 21st century.

# # #

2990R

REMARKS BY WILLIAM F. WILLIS, GENERAL MANAGER
TENNESSEE VALLEY AUTHORITY
BEFORE THE SUBCOMMITTEE ON WATER RESOURCES
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES
DECEMBER 8, 1987 WASHINGTON, D.C.

Mr. Chairman, Members of the Subcommittee, it is a pleasure to be with the TVA Board for this discussion. As Chairman Dean has noted, his testimony and that of Director Waters are individual statements. As TVA's General Manager, I will provide background and perspective on the underlying question of TVA's managerial effectiveness.

We recognize the importance of this inquiry. No one who has grappled with TVA's serious problems, as Chairman Dean, Director Waters, and I have done, can doubt for a moment the need to look hard at the way TVA conducts its business. Indeed, as I will summarize, we have been doing precisely this. We've taken some important steps. We intend to take more.

We look forward to working constructively with this Committee and other interested Committees in answering the central question that motivates this inquiry: namely, "What is necessary for TVA to carry out its mission effectively in the 1990s and beyond?" That's the key issue.

Before offering my general observations, I want to pay tribute to Representative Ronnie Flippo, the author of the principal bill, H.R. 2025, to restructure the TVA Board. Representative Flippo and I have exchanged views on this and related matters on many occasions. Sometimes we find ourselves in agreement--sometimes we don't. But no one has more sincere concern for TVA and its future than Ronnie Flippo. We at TVA will continue to work closely with him in the coming months.

We also want to thank Representative Don Sundquist, the only member of the Valley Delegation serving on this important TVA oversight Subcommittee and the full Committee on Public Works and Transportation. Mr. Sundquist was instrumental in providing us with the opportunity to be here today. Like Mr. Flippo, Don Sundquist may not agree with us on every issue. But he is vitally interested in TVA and the people we serve, and we genuinely appreciate his counsel.

In this same vein, I want to thank Governor Baliles and his committee of the Southern States Energy Board for their comprehensive inquiry into TVA. Again, while we did not agree with all aspects of the committee's work, we find the final recommendations to be constructive, balanced, and worthy of serious consideration. We currently have implemented or are in the process of implementing a number of the committee's proposals.

The issue, again, is clear: "What is necessary for TVA to carry out its mission effectively in the 1990s and beyond?" The structure of the TVA Board is one issue to consider in weighing this question, but it is only one. My purpose today is to offer my experience as TVA's Chief Operating Officer in looking at this question in its full perspective. First, I believe the record should be clear on the many initiatives taken recently at TVA to improve and strengthen our managerial effectiveness.

At the Board's direction, we employed the well-regarded independent auditing and management consulting firm, Coopers & Lybrand, to assess our top management situation and recommend improvements. Taking their suggestions into account, along with other considerations, I proposed on April 20, 1987, and the Board endorsed, the following actions:

- o Establish the General Manager as TVA's Chief Operating Officer.
- o Establish a Chief Financial Officer for TVA.
- o Establish a Corporate Support Staff to serve the Board and General Manager by bringing essential policy matters to the Board's attention in a form ready for decision and by directing management decisions to the General Manager in an orderly and well-staffed way.

In this same period, action has also been taken to:

- o Strengthen internal management systems, such as the multiyear planning process, in order to more directly link responsibility and accountability throughout TVA's management structure.
- o Recast TVA's corporate management structure to strengthen TVA's capability to examine policy and programmatic options through the Office of Policy, Planning, and Budget and to deal more effectively with external and governmental concerns through the Office of Governmental and Public Affairs.
- o Develop an extensive "options paper" on TVA's organization and structure that examined a broad range of management options and alternatives, both legislative and non-legislative.

This paper has been helpful in thinking through many of the important questions that concern this Subcommittee. I am glad to offer a copy of the "options paper" for inclusion in the hearing record if the Subcommittee so wishes.

These decisions are directly responsive to concerns regarding the lack of clarity between policy and management responsibilities of the Board and General Manager, respectively. They also streamline TVA's decision-making process, as well as strengthen responsibility and accountability in key management areas, such as finance, policy analysis and planning, and governmental and public affairs. In my view these changes have been working extremely well, and I am available to discuss them in greater detail if the Subcommittee desires.

* * * *

I hasten to add, however, that these changes are not sufficient answers to the key question: "What is necessary for TVA to carry out its mission effectively in the 1990s and beyond?"

One further change to consider is a restructured Board along the lines proposed by Representative Flippo, Governor Baliles, Alex Radin, and others. Since Chairman Dean and Director Waters discuss this proposal in more detail in their statements, I will defer principally to them.

But I must observe that however successful an enlarged, part-time Board might prove to be--and the likelihood of conspicuous success cannot simply be assumed--it is, at best, only one element of a more comprehensive response that will be needed if my question is to be addressed.

My message today is clear and direct: your concern for TVA's future cannot be expressed simply in terms of the structure of the Board of Directors. My experience of recent years teaches a very different lesson.

The lesson is this: If TVA is to be held accountable as a public corporation for maintaining electric rates that are truly competitive, then TVA has to recapture the flexibility and independence of management action that TVA's founders envisioned in 1933. The reality today is dramatically different: TVA is held accountable--as is necessary and proper--but we are often denied the authority that is required to get the job done.

Simply changing the Board's structure--however desirable that action might prove to be--will not deal with more fundamental concerns I am raising.

As Chairman Dean has stated, the issue of permitting TVA to offer competitive, market-based salaries is of fundamental importance. Every external group that has examined TVA in recent years--the Baliles committee, the Grace Commission, the Reagan transition team--all agree that present statutory restrictions on the Board's authority to compete for highly skilled and experienced persons to run TVA must be removed.

We have asked Congress on many occasions to help us solve this crucial problem. For whatever reason, this help has not been forthcoming--and we have paid a heavy price. We have not been able to recruit and retain the managers and technicians that TVA simply must have to carry out its mission.

The next item on my list concerns the statutory fence that surrounds TVA's power system. As you know, this fence was established at the time of the 1959 self-financing amendments to the TVA Act. Its purpose was to protect investor-owned systems from being purchased and incorporated into the TVA system. I have no doubt that its adoption was necessary in the political circumstances that prevailed in 1959.

But now nearly three decades have passed. The situation of TVA's relations with our investor-owned neighbors is undergoing dramatic change. Every day we read of the push toward deregulation and competition in the electric utility industry. We recognize that TVA's service area in this new competitive environment will increasingly become a target of opportunity for investor-owned systems. And here is where the "fence" becomes critical.

You see, it is a strange, one-way fence. TVA is prevented from acquiring permanent customers outside the fence. But TVA's competitors are totally free to scale the fence from the other direction and steal any or all of TVA's retail distributors.

That simply means that TVA is entering this new era of deregulation and competition with one and possibly both hands tied behind its back. I say that is fundamentally unfair. Those concerned about TVA's future must give this problem serious attention.

Another concern is the administrative obstacles that increasingly erode TVA's posture as a public corporation ". . . clothed with the power of government but possessed of the flexibility and initiative of private enterprise."

As noted in the options paper, TVA's corporate independence and flexibility have been eroded in recent years, making it more difficult, especially in running the electric power system, to operate in an efficient, cost-effective way.

In this regard, the observations of the National Academy of Public Administration on this problem affecting all Federal entities are worth noting. The Academy has declared in a recent report: ". . . (G)overnment has become entwined in elaborate management control systems and the accretion of progressively more detailed administrative procedures, often heavily centralized. This development has not produced superior management. Instead, it has produced managerial overburden, barriers to the responsiveness of government, and a tendency to drive up the cost of government . . ." (NAPA, Revitalizing Federal Management: Managers and their Overburdened Systems, November 1983.)

The effect of these administrative obstacles is even more severe on a public corporation, such as TVA, that was envisioned as running in a businesslike manner, able to compete head-to-head with private sector corporations.

Today, long notice and waiting periods are routinely required of TVA prior to purchasing goods and services. In the electric utility business this lack of timeliness can carry a high price. With increasing frequency, disappointed bidders on TVA purchasing contracts protest the award to the U.S. General Accounting Office or to the General Services Board of Contract Appeals--further delaying the procurement process.

Bear in mind, of course, that taxpayer dollars are not involved in these decisions. Those who pay the costs of these administrative obstacles are the TVA ratepayers.

Restrictions on the use of TVA vehicles, for example, prevent our making an overnight loan of a TVA car to a steam plant employee who has been asked to work overtime to meet an emergency and therefore missed his car or van pool home.

In remote areas of the Tennessee Valley there is no public transportation or even taxi service. How, then, does the employee get home? Why should the maintenance of TVA's steam plants be obstructed by a law passed primarily to stop home-to-work limousine service for government executives based in Washington?

In general, Federal travel regulations frequently prevent TVA from carrying out its business in the most efficient and cost-effective way.

I have already discussed the effect of the Federal salary cap on TVA's ability to hire and retain the employees it needs to function effectively and efficiently.

The list goes on and on. And every year it gets a little longer. And every year TVA's capability to function as a business gets more problematical.

* * * *

As the Subcommittee considers the question of TVA's management structure, the recommendations of the Baliles committee will no doubt be on the table. Their proposals for an expanded, part-time board, a statutory chief executive officer, and elimination of the statutory pay cap have been noted. I would also like to comment briefly on their suggestions to strengthen TVA's accountability to the public at large, our ratepayers, and Congress.

The recommendation to establish a Chief Financial Officer has been fully implemented. The Inspector General reports regularly to the TVA Board and the General Manager. If an enlarged Board was created, I am confident this relationship with the Inspector General would continue.

I will soon be recommending to the TVA Board a system of formal annual reviews of finance, rates, capital investment, construction schedules, and general operations of the power program, as discussed in TVA's options paper and the Baliles committee report. Previously, information for such reports has been available in great detail. However, the public review process can be strengthened in ways to make TVA's accountability more clear.

For the same reasons of accountability, I will also recommend to the TVA Board that we continue to establish groups of interested citizens to advise TVA on its major programmatic or functional activities. In the past several years groups dealing with industrial development, minority economic development, agricultural resources, fertilizer research and development, energy research and development, and nuclear safety have been created.

My recommendation will be to expand this process into other major areas of TVA's operations and to provide the staff support that is necessary for these groups to function in a meaningful way.

The issues being addressed today should be seen in light of the original purpose of the TVA Board. Its founders intended for TVA to be independent from other government agencies and departments.

The fact that TVA's Board is physically located in the Tennessee Valley is both of practical and symbolic significance. The President and Congress quite literally intended for TVA and its Board to be set apart. And they provided for something else that sets the TVA Board apart.

They granted TVA Board members complete authority to assess problems, determine innovative solutions, and then to act upon their own authority . . . in other words, to act like a private enterprise. This unique flexibility and freedom to be competitive must not be eroded if TVA is to remain a viable institution for the region and Nation.

As deliberations continue about TVA's future, it is heartening to know that members of this Subcommittee recognize the need to exercise extreme care and avoid precipitous actions that could inadvertently destroy this precious asset.

In this statement I have attempted to provide the Subcommittee with my perspective, as TVA Chief Operating Officer, of what is involved if TVA is to carry out its mission in the 1990s and beyond. It is a challenging and perhaps controversial agenda. But it is reality, as I see it.

* * * *

Few tasks are more difficult than carrying out a process of renewal within a large, complex, half-century old public organization. But that is exactly what is taking place at TVA today.

This process must involve TVA employees, TVA ratepayers and constituents, and, of course, the Congress and the Executive. Our goal must be to inspire loyalty, a common sense of purpose, and trust. From this perspective, these hearings are an important contribution to building a consensus for action. I compliment the Chairman and members of the Subcommittee for taking this initiative.

The TVA Board and I look forward to working with you in this significant endeavor.

# # #

2987R

Mr. NOWAK. I would like to call our last witness for this session, Richard Freeman, who is a former member of the Board of Directors of TVA.

TESTIMONY OF RICHARD M. FREEMAN, FORMER MEMBER, TVA BOARD OF DIRECTORS

Mr. FREEMAN. Thank you, Mr. Chairman.

I am a former Director of the Tennessee Valley Authority. About half of my business life has been devoted to the private sector, and about half to the public sector. I feel that on this issue, I may have some light to bring to the committee.

I approach the question of whether the board should be restructured from the view that the TVA's problems in building and operating nuclear plants are in no way impacted by the structure of its board. The cause of TVA's nuclear problems lies elsewhere, and indeed, I am assured when two members of this Congress from the Tennessee Valley have recognized that today in dealing with the salary cap issue, because that certainly goes to the heart of the TVA's past problems.

But further, as serious as TVA's problems are, they are no more serious than those of some private utilities that have large, part time boards of directors and strong chief executive officers.

With this background, I wish to examine some of the supposed advantages of large part time boards.

It is suggested that a large part time board with a strong chief executive officer is in accord with current practices of public and private organizations. The difficulty with this argument is that no public or private organization is in any way comparable to TVA, which has a broad mission—and that has been discussed with the last witnesses—not simply to produce electricity, but more importantly, to help develop a significant region of the nation.

Those who make this analogy simply do not understand the dynamics of a regional development agency of the scope of TVA. The founders of TVA recognized this distinction between TVA and other kinds of corporate entities, public and private, when they structured TVA with a small full time board.

It is urged that a large part time board, with a strong chief executive officer would fix a clear distinction between policy and management. The board would be responsible for broad policy, long range planning, and goal setting, and the chief executive officer would be responsible for executing the policies, plans and goals. This sounds reasonable in theory, but breaks down in practice. The argument assumes that the distinction between policy and management is clear. This simply is not the case in the real life of a vital institution such as TVA.

But in any event, there is no chance that a part time board could become knowledgeable enough about the complex issues confronting TVA—and particularly the interrelationships among these issues—to set policy, plans and goals intelligently and effectively. A part time board would either mindlessly ratify the bureaucracy's agenda, or worse still, attempt to impose on the bureaucracy an uninformed agenda of its own.

Some argue that a large, part time board would be more responsive and accountable than the current small, full time board. I find that a curious argument. The larger the number of directors, the more diffused the responsibility. An individual director on a large board can comfortably rationalize that his or her vote won't make a difference.

Let me turn to the problems I see with the proposals to enlarge the board.

I believe the board governing TVA needs to be more involved with the guts of the issues confronting TVA and the region it serves, not less involved. In my experience, unless one has a keen grasp of the facts about an issue, and the interrelationships among those issues, one cannot make wise decisions. Being an effective director of the TVA is a full time, not part time job. Clearly in this respect, I make a distinction between TVA, with its multi-faceted mission, and the relatively straightforward and less complex mission of a private utility concerned only with producing and swelling electricity.

As I have already implied, in a large, complex federal agency such as TVA, it is important for those governing the agency to direct the bureaucracy and not for the bureaucracy to direct the directors. A part time board simply cannot be sufficiently involved in the goings on in the institution to do that job.

Finally, a large, part time board, with members appointed to represent specific states of the region, can only be divisive. The very process of selection will promote a parochialism among board members in approaching valley-wide issues. In its 50 plus history, TVA has been relatively free from this kind of approach to the area's problems. Issues which are difficult enough when analyzed in a straightforward, factual way, would become hopelessly muddled when viewed from the several individual interests of the valley's sub-regions. Indeed, I regard the potential for politicizing the decision-making process of TVA as one of the most serious deficiencies in the large, part time board proposals.

In sum, I see no advantage in enlarging the board with part time members. I believe much would be lost.

I would ask the committee, please, that my entire statement be made a part of the record. I have attempted to summarize it.

Thank you.

Mr. **Nowak**. Without objection, it is so ordered, Mr. Freeman.

Let me ask you, you make a point that a part-time board would be too ill-informed, perhaps, to operate effectively. But we make—and it has been argued by other witnesses and the testimony I have received—that there are very complex, multinational corporations, in effect operating under that identical structure. I realize your testimony makes the point that there is a "diffused mission" with the TVA, but isn't then the strength of our corporate structure here in America to give that Chief Executive Officer the direct responsibility to deal with all of those problems and present them to a larger board than three members?

Mr. **Freeman**. It is a good question. There are a number of problems I have with that kind of an analogy. In the final analysis, a large private sector corporation does have one objective and one only, and that is to make a profit. That is what makes the system work. There has been, as I am sure you are aware, a lot of criticism of the inability of large corporate boards to be well enough informed, and I think that is a serious corporate problem. Many of the students of modern corporations, because they are becoming more complex, are looking seriously at that.

So I would suggest that even in the private sector, which I have served, there has been a fair amount of concern at the kind of attention that part time board members, arriving once a month, receiving only the information that they get from their Chief Executive Officer, devote to the increasingly complex problems in the private sector.

Mr. **Nowak**. I mentioned before the personal liability factor. I think at least in the private sector, there has been a change in the private sector, there has been a change in the structure, at least in the awareness of the members of boards, of some personal liability, even without gross negligence on their part.

I am wondering if that would—if we opened this type of a structure up now to nine board members who are now part time, would you see that as any legal problem?

Mr. **Freeman**. I would assume——

Mr. **Nowak**. Just what you mentioned about the possibility of liability for board members?

Mr. **Freeman**. I would assume TVA would and should continue to indemnify its board members. Of course, in the private sector that is done through insurance, which is paid for by the corporation.

Mr. **Nowak**. The difference, of course, would be that the policy would lie in a separate body than it now lies in if you had a change in the structure.

Could you comment on if you had a strong chief executive officer, couldn't he then be the individual charged with the responsibility to carry out the broad mission, even though it is, as you have mentioned in your testimony, larger than private corporations?

Mr. **Freeman**. Well, I think a strong Chief Executive Officer of the TVA would be in a position to—assuming that that was his desire—to, so to speak, pull the wool over the eyes of any part time board, and in effect, get almost anything he or she wanted. That is the danger.

I have been in both the public and private sector. I just have never been able to make that clear distinction between policy and management. You really have to know what is going on if you are going to make policy, unless you are willing to rely solely upon those people in the institution who may have a vested interest in loading the facts in a particular direction.

We are all human. I operate on the theory that sometimes the objective of those carrying out the policy is not the same as that of those who are trying to make policy. It is that possible discrepancy that makes it important for those making policy to know what is really going on.

Mr. **Nowak**. With that point, I will turn you over to Mr. Sundquist.

Mr. **Sundquist**. Thank you, Mr. Chairman.

Mr. Freeman, I read your testimony and listened to it; are you saying that TVA should keep its present structure because of its broad mission?

Mr. **Freeman**. That is one reason.

Mr. **Sundquist**. On that basis, shouldn't we have three directors of a state and three directors of a country; they are significant regions?

Mr. **Freeman**. Well, a case can be made for a single administrative mechanism which would be the analogy you are drawing.

Mr. **Sundquist**. If TVA were in fact the 15th largest private corporation in the country, and started building 17 nuclear power plants and ended up with five, and all five closed down, what do you think would happen to the chief executive officer?

Mr. **Freeman**. That same thing has happened in the private sector and the CEO's are still there. And TVA estimates, bad, though, they were, and they were not my estimates, but those estimates were not as grossly in error as the estimates made in the private sector by many of the corporations.

Mr. **Sundquist**. Who has had a bigger problem with nuclear power than TVA?

Mr. **Freeman**. One corporation has sought the protection of the bankruptcy courts because of its nuclear problems. Another has the highest rates in the United States because of its nuclear problems.

Mr. **Sundquist**. They are bigger problems than TVA has?

Mr. **Freeman**. I would regard higher rates as a bigger problem, and being in bankruptcy a more serious problem.

Mr. **Sundquist**. Unless changes are made, TVA may end up with very high rates, based on the current curve.

Mr. **Freeman**. Unless TVA can get its nuclear plants operating, I think TVA's rates will, indeed, have to be raised significantly; but I don't think enlarging the board is going to advance by one day getting those plants on line.

Mr. **Sundquist**. How do we get accountability?

Mr. **Freeman**. I think you have accountability in the sense that each one of the members of the board feels very responsible. I was on that board; I felt very responsible. If I were one of nine or seven, I wouldn't feel nearly as responsible.

Mr. **Sundquist**. How about if you were the one?

Mr. **Freeman**. I think a case can be made for a single administrator. I think there are a lot of reasons why that is not a good idea but a case can be made for it.

Mr. **Sundquist**. So you would consider the case for a full-time CEO:

Mr. **Freeman**. I want whoever is charged with the primary responsibilities, and who is being held accountable, to be able to devote full-time to the job. I believe that the fewer you have, the more accountable they will be. But it is very important they be full-time so that they can understand the guts of the many issues confronting TVA, and they are not solely nuclear, as you know.

Mr. **Sundquist**. I appreciate your testimony and appreciate your being here today. You came on the board at a time when some critical decisions had to be made, and the accountability of those preceding you leaves a lot to be desired. But I respectfully disagree with you on the issue of board structure. I sense, though, that you are saying there may be some merit to a larger board.

Mr. **Freeman**. I don't see any merit in a large part-time board.

Mr. **Sundquist**. How about a chief executive officer——

Mr. **Freeman**. I see merit, but there are deficiencies in that approach, too. I would be reluctant to give one person that much power.

Mr. **Sundquist**. There is always a problem of getting someone on the board and filling a vacancy.

Do you think that is a problem?

Mr. **Freeman**. I think that is a problem that the Congress should certainly be very interested in addressing, and I think the chief executive is not doing his job when he doesn't fill those vacancies.

Mr. **Sundquist**. It is part of the political system that those things are hard to fill in that arena. Given the nature of the job and the amount it pays, who is going to seek that job with the trouble and the pressures?

I understand what you are saying, but I believe you don't run states or countries or successful corporations by committees, and I don't think TVA is that unique that it is the only operation in this country that has to have three full-time directors.

Mr. **Freeman**. I think TVA's history will suggest that the three-person board over the 53-year history as a structure has worked very well. Now there have been times when the individuals who sit in those positions may not have done a good job. But I think you will agree with me that it is quality we ought to be looking at; I like to put it in terms our delegation ought to be concerned with the quality and not quantity.

Mr. **Sundquist**. Absolutely, I think we ought to have quality, but it is part of the checks and balances, and what occurred in 1940 in building cars is not what occurred in the 1980s in building cars.

We are talking about what has to happen in the 21st Century. Thank you.

Mr. **Freeman**. Exactly.

Mr. **Nowak**. Mr. Hastert?

Mr. **Hastert**. Thank you, Mr. Chairman.

When you canceled the nuclear plants when you came on board, were any of those plants under construction when you canceled them?

Mr. **Freeman**. Yes, indeed. They were all under construction.

Mr. **Hastert**. What was the cost to the ratepayers to cancel those plants?

Mr. **Freeman**. The cost is being spread over 11 years. There is something like $5 billion at last count, and I haven't been at TVA for two years, but something like $5 billion that had to be amortized over 11 years.

Mr. **Hastert**. If TVA were a private corporation today, would they be bankrupt or on the verge?

Mr. **Freeman**. If TVA were a private corporation, no, because the resources are there to handle that problem. TVA is very strong financially.

Mr. **Hastert**. You have watched TVA over a period of years; do you think that there would be merit in separating the utility business from the rest of it, or are they tied together?

Mr. **Freeman**. If TVA does its job—they are so integrated—that much would be lost by separating out the power system. The whole concept of TVA as a demonstration and experiment is that the resource development of a region is, indeed, integrated.

One of my predecessors on the board used the term it is a seamless web and I think that TVA ceases to be something very important in American Government if that is destroyed.

Mr. **Hastert**. Thank you, Mr. Chairman.

Mr. **Nowak**. I want to thank all our witnesses.

Mr. Freeman is a past director giving us the benefit of his experience and certainly there is a mixed message coming through all of our testimony, and we will have the opportunity to go through again and try to fill in these gaps.

I want to thank everybody for their presence and we will look forward to being with you once again on this matter as we make progress.

Thank you very much.

We will adjourn now the hearing until 10 o'clock tomorrow, and for those that are interested in returning tomorrow, we have at the present time the room B-352.

However, if we feel that we can move out the other subcommittee that is having a hearing in this room, we will again change back into this larger room for the testimony.

[Mr. Freeman's prepared statement follows:]

TESTIMONY OF RICHARD M. FREEMAN
BEFORE THE SUBCOMMITTEE ON WATER RESOURCES
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES
DECEMBER 8, 1987   WASHINGTON, D.C.

MY NAME IS RICHARD FREEMAN. I WAS A DIRECTOR OF TVA FROM OCTOBER 1978 UNTIL I RESIGNED IN FEBRUARY OF 1986. PRIOR TO SERVING AS A DIRECTOR OF TVA, I WAS AN OFFICER AND DIRECTOR OF THE CHICAGO AND NORTH WESTERN TRANSPORTATION COMPANY, A RAILROAD WITH OVER 10,000 EMPLOYEES, OPERATING IN ELEVEN MID-WESTERN STATES. IN MY FIRST SEVERAL YEARS AFTER GRADUATING FROM COLUMBIA UNIVERSITY LAW SCHOOL, I WAS AN ATTORNEY WITH TVA. MY WORKING CAREER HAS BEEN ALMOST EQUALLY DIVIDED BETWEEN THE PUBLIC AND PRIVATE SECTORS.

I APPROACH THE ISSUE OF WHETHER THE BOARD OF DIRECTORS OF TVA SHOULD BE RESTRUCTURED FROM THE VIEW THAT TVA'S PROBLEMS IN BUILDING AND OPERATING NUCLEAR PLANTS ARE IN NO WAY IMPACTED BY THE STRUCTURE OF ITS BOARD. THE CAUSE OF TVA'S NUCLEAR PROBLEMS LIES ELSEWHERE. FURTHERMORE, AS SERIOUS AS TVA'S NUCLEAR PROBLEMS ARE, THEY ARE NO MORE SERIOUS THAN THOSE OF SOME PRIVATE UTILITIES THAT HAVE LARGE, PART-TIME BOARDS OF DIRECTORS AND STRONG CHIEF EXECUTIVE OFFICES.

WITH THIS BACKGROUND, I FIRST WISH TO EXAMINE THE SUPPOSED ADVANTAGES OF LARGE, PART-TIME BOARDS AND THEN ENUMERATE THE DEFICIENCIES I SEE IN ENGRAFTING THAT KIND OF STRUCTURE ON TVA.

IT IS SUGGESTED THAT A LARGE PART-TIME BOARD WITH A STRONG CEO IS IN ACCORD WITH CURRENT PRACTICES OF PUBLIC AND PRIVATE ORGANIZATIONS. THE DIFFICULTY WITH THIS ARGUMENT IS THAT NO PUBLIC OR PRIVATE ORGANIZATION IS IN ANY WAY COMPARABLE TO TVA WHICH HAS A BROAD MISSION, --① NOT SIMPLY TO PRODUCE ELECTRICITY, BUT MORE IMPORTANTLY TO HELP DEVELOP A SIGNIFICANT REGION OF THE NATION.

THOSE WHO MAKE THIS ANALOGY SIMPLY DO NOT UNDERSTAND THE DYNAMICS OF A REGIONAL DEVELOPMENT AGENCY OF THE SCOPE OF TVA. THE FOUNDERS OF TVA RECOGNIZED THIS DISTINCTION BETWEEN TVA AND OTHER KINDS OF CORPORATE ENTITIES, PUBLIC AND PRIVATE, WHEN THEY STRUCTURED TVA WITH A SMALL FULL TIME BOARD.

IT IS URGED THAT A LARGE PART-TIME BOARD WITH A STRONG CEO WOULD FIX A CLEAR DISTINCTION BETWEEN POLICY AND MANAGEMENT. THE BOARD WOULD BE RESPONSIBLE FOR BROAD POLICY, LONG RANGE PLANNING AND GOAL SETTING, AND THE CEO WOULD BE RESPONSIBLE FOR EXECUTING THE POLICIES, PLANS, AND GOALS. THIS SOUNDS REASONABLE IN THEORY, BUT BREAKS DOWN IN PRACTICE. THE ARGUMENT ASSUMES THAT THE DISTINCTION BETWEEN POLICY AND MANAGEMENT IS CLEAR; THIS SIMPLY IS NOT THE CASE IN THE REAL LIFE OF A VITAL INSTITUTION SUCH AS TVA.

BUT, IN ANY EVENT, THERE IS NO CHANCE THAT A PART-TIME BOARD COULD BECOME KNOWLEDGEABLE ENOUGH ABOUT THE COMPLEX ISSUES CONFRONTING TVA--AND PARTICULARLY THE

INTERRELATIONSHIPS AMONG THESE ISSUES--TO SET POLICY, PLANS AND GOALS INTELLIGENTLY AND EFFECTIVELY. A PART-TIME BOARD WOULD EITHER MINDLESSLY RATIFY THE BUREAUCRACY'S AGENDA OR, WORSE STILL, ATTEMPT TO IMPOSE ON THE BUREAUCRACY AN UNINFORMED AGENDA OF ITS OWN. ~~I SUGGEST THAT THE FORMER IS MORE LIKELY, AND THAT THE STRONG CENTRALIZED CHIEF EXECUTIVE URGED BY THOSE WHO WOULD CHANGE THE ACT COULD BECOME AN UNCHECKABLE, BUREAUCRATIC AUTOCRAT OF THE WORST SORT.~~

SOME ARGUE THAT A LARGE, PART-TIME BOARD WOULD BE MORE RESPONSIVE AND ACCOUNTABLE THAN THE CURRENT SMALL, FULL TIME BOARD. I FIND THAT A CURIOUS ARGUMENT. THE LARGER THE NUMBER OF DIRECTORS THE MORE DIFFUSED THE RESPONSIBILITY. AN INDIVIDUAL DIRECTOR ON A LARGE BOARD CAN COMFORTABLY RATIONALIZE THAT HIS OR HER VOTE WON'T MAKE A DIFFERENCE. ~~BUT, HAVING SERVED ON TVA'S THREE PERSON BOARD, I CAN ASSURE YOU THAT UNDER THE PRESENT STRUCTURE THERE IS NO PLACE TO HIDE AND THERE IS A DEEP-SEATED SENSE OF ACCOUNTABILITY TO THE TVA ACT AND TO ITS PURPOSES.~~

LET ME TURN TO THE PROBLEMS I SEE WITH THE PROPOSALS TO ENLARGE THE BOARD.

I BELIEVE THE BOARD GOVERNING TVA NEEDS TO BE MORE INVOLVED WITH THE GUTS OF THE ISSUES CONFRONTING TVA AND THE REGION IT SERVES, NOT LESS INVOLVED. IN MY EXPERIENCE, UNLESS ONE HAS A KEEN GRASP OF THE FACTS ABOUT those

AN ISSUE, AND THE INTERRELATIONSHIPS AMONG ~~RELATED~~ ISSUES, ONE CANNOT MAKE WISE DECISIONS. ② TO GET THAT FULL GRASP OF THE MANY ISSUES REGULARLY FACING TVA REQUIRES ALL THE TIME AND ATTENTION ONE CAN BRING TO THE JOB 365 DAYS A YEAR. BEING AN EFFECTIVE DIRECTOR OF TVA IS A FULL-TIME, NOT A PART-TIME JOB. CLEARLY, I MAKE A DISTINCTION BETWEEN TVA WITH ITS MULTI-FACETED MISSION AND THE RELATIVELY STRAIGHT FORWARD AND LESS COMPLEX MISSION OF A PRIVATE UTILITY CONCERNED ONLY WITH PRODUCING AND SELLING ELECTRICITY.

AS I HAVE ALREADY IMPLIED, IN A LARGE, COMPLEX FEDERAL AGENCY SUCH AS TVA, IT IS IMPORTANT FOR THOSE GOVERNING THE AGENCY TO DIRECT THE BUREAUCRACY AND NOT FOR THE BUREAUCRACY TO DIRECT THE DIRECTORS. ~~IN THIS, TOO, TVA DIFFERS FROM THE PRIVATE SECTOR. THOSE IN CHARGE OF A CORPORATION IN THE PRIVATE SECTOR HAVE MORE INCENTIVES AND DISINCENTIVES TO OFFER THEIR MANAGERS AND EMPLOYEES. THUS, IT IS LESS LIKELY THAT THE MANAGERS AND EMPLOYEES WILL BECOME AS ENTRENCHED AND IMMOVABLE AS THOSE IN THE PUBLIC SECTOR. IN ITS EARLY DAYS, TVA WAS--IN THIS RESPECT--MORE LIKE A PRIVATE SECTOR CORPORATION, BUT THROUGH THE YEARS A NUMBER OF "CARROTS AND STICKS" HAVE BEEN REMOVED FROM THE POWERS OF THE BOARD. AS A RESULT, TVA HAS BECOME MORE LIKE A PUBLIC BUREAUCRACY THAN A PRIVATE SECTOR CORPORATION. THIS MAKES IT EVEN MORE IMPORTANT FOR THE DIRECTORS OF TVA TO BE KNOWLEDGEABLE~~ ENOUGH TO DIRECT THE BUREAUCRACY. A PART-TIME BOARD

SIMPLY CAN NOT BE SUFFICIENTLY INVOLVED IN THE GOINGS ON IN THE INSTITUTION TO DO THAT JOB.

FINALLY, A LARGE, PART-TIME BOARD WITH MEMBERS APPOINTED TO REPRESENT SPECIFIC STATES OF THE REGION CAN ONLY BE DIVISIVE. THE VERY PROCESS OF SELECTION WILL PROMOTE A PAROCHIALISM AMONG BOARD MEMBERS IN APPROACHING VALLEY-WIDE ISSUES. IN ITS 50-~~PLUS~~ YEARS HISTORY, TVA HAS BEEN RELATIVELY FREE FROM THIS KIND OF APPROACH TO THE AREA'S PROBLEMS. ISSUES WHICH ARE DIFFICULT ENOUGH WHEN ANALYZED IN A STRAIGHT-FORWARD, FACTUAL WAY, WOULD BECOME HOPELESSLY MUDDLED WHEN VIEWED FROM THE SEVERAL INDIVIDUAL INTERESTS OF THE VALLEY'S SUB-REGIONS. INDEED, I REGARD THE POTENTIAL FOR POLITICIZING THE DECISIONMAKING PROCESS OF TVA AS ONE OF THE MOST SERIOUS DEFICIENCIES IN THE LARGE, PART-TIME BOARD PROPOSALS.

IN SUM, I SEE NO ADVANTAGE IN ENLARGING THE BOARD WITH PART-TIME MEMBERS. I BELIEVE MUCH WOULD BE LOST.

# # #

Mr. NOWAK. At this point, we stand in recess.

[Whereupon, at 5:55 p.m., the hearing recessed.]

PROPOSALS TO AMEND THE ORGANIZATIONAL STRUCTURE OF THE TENNESSEE VALLEY AUTHORITY

WEDNESDAY, DECEMBER 9, 1987

House of Representatives,
Subcommittee on Water Resources,
Committee on Public Works and Transportation,
Washington, DC.

The subcommittee met, pursuant to recess, at 10:13 a.m., in room B-352, Rayburn House Office Building, Hon. Henry J. Nowak (chairman of the subcommittee) presiding.

Mr. Nowak. The subcommittee will come to order.

Our first witness has arrived, and he has other matters I understand also to take care of this morning, perhaps broader terms, but we appreciate his taking the time to come to us with all of the other little extraneous things that are pending in his life.

So, let me very succinctly just state that this morning, we will continue to meet and continue the hearings on the proposals to amend the organizational structure of the TVA. At yesterday's hearing we received testimony from Members of Congress, the TVA and public witnesses. Today we will receive testimony from the Office of Management and Budget and representatives of the Southern States Energy Board which recently conducted a study of TVA.

When TVA was formed and created in 1933, control of the corporation was placed in a three-man board of directors appointed by the President with the advice and consent of the Senate. This board is responsible for policies, as well as daily management of the corporation.

This structure has been criticized as ineffective, and proposals have been made to enlarge the board, make it part-time, and vest daily control of TVA in a chief executive officer similar in structure to the modern corporation. The restructuring proposals have also included, I might add, Mr. Miller, modifications or removal of Federal pay caps.

Before we hear from our first witness, I want to yield to the acting ranking Republican member, Mr. Sundquist, for any remarks he may wish to make.

Mr. Sundquist. Thank you, Mr. Chairman.

I have no opening remarks other than to say thank you to you for the way you conducted the hearings yesterday. I think they have been very beneficial.

Mr. Stangeland is at an Agriculture Committee meeting. He will be here later. I ask that his statement be inserted in the record.

Mr. NOWAK. Without objection.

[Mr. Stangeland's prepared statement follows:]

STATEMENT OF HONORABLE ARLAN STANGELAND
TVA STRUCTURE AND MANAGEMENT HEARING
WATER RESOURCES SUBCOMMITTEE

DECEMBER 9, 1987

THANK YOU, MR. CHAIRMAN. I EXPECT TODAY'S HEARING ON PROPOSED CHANGES TO THE STRUCTURE AND MANAGEMENT OF TVA TO BE JUST AS HELPFUL AS YESTERDAY'S. WITH TODAY'S TESTIMONY FROM THE DISTINGUISHED DIRECTOR OF OMB, JIM MILLER, GOVERNOR BALILES OF VIRGINIA AND OTHER EXPERTS WHO WORKED ON THE SOUTHERN STATES ENERGY BOARD REPORT, WE CAN CONTINUE TO REVIEW THE CORPORATION'S MISSION, STRUCTURE, AND POSSIBLE AREAS FOR ORGANIZATIONAL REFORM.

YESTERDAY, THE WATER RESOURCES SUBCOMMITTEE HEARD VARIOUS PROPOSALS TO AMEND THE 1933 ACT TO ADDRESS SPECIFIC MANAGEMENT NEEDS OF TVA. THE ISSUE IS AN IMPORTANT ONE, CONSIDERING THE PRESSING NEEDS AND CHALLENGES OF THE YEARS AHEAD. WITNESSES SUGGESTED PROPOSALS TO CHANGE THE SIZE AND FUNCTION OF THE BOARD OF DIRECTORS, TO ESTABLISH A CHIEF EXECUTIVE OFFICER, TO CHANGE HIRING PROCEDURES, TO ADJUST PROHIBITIVE SALARY CAPS, TO ESTABLISH AN INDEPENDENT INSPECTOR GENERAL, AND TO MAKE A VARIETY OF OTHER POSSIBLE MANAGEMENT REFORMS.

MANY OF THESE PROPOSALS EMPHASIZED INCREASED ACCOUNTABILITY AND EFFICIENCY, GREATER FLEXIBILITY, AND CLOSER ALIGNMENT TO THE CORPORATE MODEL OF MANAGEMENT. SOME EXPERTS CLAIMED TVA SHOULD HAVE A PART-TIME BOARD OF DIRECTORS FOCUSING ON POLICY AND A FULL TIME C.E.O. FOCUSING ON DAY-TO-DAY MANAGEMENT AND THAT STATUTORY PAY CAPS SHOULD BE LIFTED TO ATTRACT AND RETAIN THE BRIGHTEST AND MOST CAPABLE EMPLOYEES. OTHERS EXPRESSED CONCERN ABOUT STRUCTURAL CHANGES. JUST ABOUT EVERYONE, HOWEVER, AGREED THAT THE SALARY CAPS SHOULD BE ADDRESSED.

ACCORDINGLY, TODAY WE WILL FOCUS ON SOME OF THE ISSUES INVOLVING TVA SALARIES AND THE SOUTHERN STATES ENERGY BOARD'S REPORT.

WITH THAT, MR. CHAIRMAN, LET ME CLOSE SO WE CAN BEGIN TO RECEIVE THIS VALUABLE TESTIMONY.

Mr. SUNDQUIST. And I thank Mr. Miller for being here.

Thank you, Mr. Chairman.

Mr. NOWAK. Mr. Miller, we will go right on to your testimony. Please proceed.

TESTIMONY OF HON. JAMES C. MILLER III, DIRECTOR OFFICE OF MANAGEMENT AND BUDGET

Mr. MILLER. Thank you, Mr. Chairman. I am pleased to be with you and your colleagues to discuss the opportunities we have for improving the management of the Tennessee Valley Authority, TVA. The fact this committee is holding this hearing today, despite the obvious demands on all members, including among the many demands the implementation of the bipartisan budget agreement, is an indication of the importance we all attached to this issue.

I am certain everyone supports the objective of ensuring that TVA operates as an efficient and reliable supplier of power to the southeast region. The Administration believes that the recent report of the Southern States Energy Board, chaired by Virginia Governor Jerry Baliles, contains important analysis and recommendations that will contribute to the achievement of this objective. And I shall return to the board and its report in just a moment.

Now, in recent years it has become increasingly apparent to us that TVA has encountered a number of problems. Power rates have increased faster than the national average. The TVA has had to cut back substantially on nuclear power construction including the cancellation of eight nuclear power plants. And in late 1985 TVA had to shut down its five operating nuclear units because of safety related concerns.

Now, TVA has taken steps to address these problems, and some improvements are under way within the current TVA structure. The President's nomination of Marvin Runyon to be the new director and chairman-designate will facilitate these efforts in no small part because he is a Texas Aggie. You may know I once taught there, although he went to school there before I began teaching. I urge the Senate to take prompt action on his confirmation.

Now, because of TVA's problems and other concerns within the region, Governor Baliles and his associates undertook a major study of TVA this past year. And as you know, the governor assembled a distinguished group of 16 high level business, energy, academic and interest group leaders with experience in utilities and management of large organizations. After a nine month review of TVA's power operations, finance and management, the Baliles committee concluded that, number one—this is a quote from the report—"The nuclear power program is the most visible aspect of TVA's problems. But it is not the problem." It is not the problem. "It is the result of a more basic problem—an endemic lack of a workable structure, management accountability and adequate compensation."

Now, to address this basic problem, the Baliles report made four principal recommendations. Number one, the current three-member, full-time board should be converted into a nine-member, part-time board for two reasons. First, it will be easier to recruit high caliber people to the part-time board, and secondly, the board should focus on board policy and business strategy issues rather than the day-to-day management of the organization.

A second recommendation, a full-time, high level chief executive officer position should be established. And the holder of that office should run the operation on a day-to-day basis.

A third recommendation, TVA should be exempted from the Federal pay cap in order to better recruit senior managers.

The fourth recommendation is that TVA should improve its credibility and accountability through actions such as establishing a chief financial officer, strengthening the inspector general function, preparing business plans, and holding annual public reviews.

Now, the Administration is supportive of the general direction of these recommendations. We still are in the process of studying the report and expect to have a more detailed position later, early next year.

The recommendations of the Baliles committee are designed to established a better framework for policy development, decision making and day-to-day management of the organization. In reviewing these recommendations, I invite the committee to consider perhaps additional measures to improve the incentives for efficient operations. Such incentives could include performance based compensation packages, as well as greater external oversight of TVA's financial planning. The Administration is also examining such proposals and may have specific recommendations to make in these areas at a later date.

In response to the problems TVA has encountered in recent years, the board of directors has initiated several steps to deal with the current situation. However, it is clear that additional corrective action is necessary and advisable. The Baliles committee recommendations to restructure the agency are a step in the right direction. And, as I said, Congress might well wish to go further. Also, the Administration might well want to implement some of these recommendations on its own where this would be done without the necessity of additional legislation.

But our specific views on this and other analysis await the results of our own analysis which is continuing in our continuation of our review of the Baliles report here. But it also awaits a review of the current situation by Mr. Runyon. We are anxious to get his views on the matter.

Mr. Chairman, members of the committee, that completes my statement. I welcome this opportunity to visit with you today and to present the Administration's views.

Mr. Nowak. I appreciate your testimony.

We are also looking at different aspects of that report from the Southern States Energy Board and trying to analyze what kind of impacts any changes would have in the near and the long-term future of TVA and, in fact, on the country. As you are well aware, Mr. Miller, there are aspects of TVA other than power production. We want to take a hard look at those because most of those have direct Federal involvement and direct Federal appropriation.

So, over the next several months we will have the opportunity to review all the reports and get the input from Mr. Runyon as he takes over. And we look forward to working with OMB to see if we can't together administratively and perhaps legislatively bring about something that will not only benefit TVA, but the Nation.

Let me turn to Mr. Sundquist at this point.

Mr. SUNDQUIST. Mr. Miller, we thank you as always. Your testimony is frank and direct. As a member of the Budget Committee, I admire your understanding of a lot of issues.

Coming from the Tennessee valley, the structure of TVA is obviously terribly important to me and to my regional colleagues. We would look forward to working with you and the Administration in an attempt to fashion some solutions to the problems that face TVA, with a goal of bringing the agency into the next century with a modern management structure.

One of the keys to this has to be to find some way of paying some of these top nuclear managers more to recruit and retain the qualified people we need. It would require a little more flexibility than currently exists in hiring these specialized people without lifting the Federal pay cap wholesale.

Do you see any problems with that?

Mr. MILLER. Congressman, this is the largest public utility energy producer retailer in the Nation. Other companies of similar size or responsibilities pay CEO's many times the Federal pay cap—not just CEO's but senior managers—several times what the pay cap would have.

We have got obviously to have some restraint on total salaries. But I think you need to get some of the talent to do the top flight, efficient management to bring techniques to the private sector that have been developed and proven effective into TVA. And I think you are going to have to have some flexibility to do that.

Look, I think we can no longer just pretend that some of these large Government enterprises are going to do the right thing simply because they are in the public sector. We have got to make sure. I think it behooves us all as part of the Government to make sure that they operate in a most efficient and effective way and deliver the services at high quality and at low cost. And I think you need some flexibility.

Following up on what the Chairman said, I think we all need to work together in achieving this. There is a problem out there. There's no question about that. I think we need to solve it, and this hearing is a step in that direction. I hope that we can put something together at the first of next year.

Mr. NOWAK. If I could, we have made a commitment to Mr. Miller that he has to leave at quarter to 11:00 for other commitments which were made far in advance of his squeezing this hearing into his schedule. So, I have not gone into a question period, and I would ask the other members if they could limit themselves to one or two questions so we can get through all the members. And then we will have, I hope, another opportunity to meet with Mr. Miller on a more formal basis to discuss a great many more details as we fill in the gaps of our hearing record.

Mr. SUNDQUIST. Mr. Chairman, if I could just follow up with one quick question.

Mr. NOWAK. Sure.

Mr. SUNDQUIST. And then I'll submit some for the record also.

Mr. MILLER. I'll be glad to get back to you for the record, Mr. Chairman. I really need to leave before that.

Mr. SUNDQUIST. During the testimony yesterday, one of my colleagues said that it is risky to open up the TVA Act during the Reagan Administration when there are more enemies of TVA in high places than ever before in the agency's history. And I suggested that the Chief of Staff is certainly not an enemy of TVA, and I don't think you are, and I don't think this Administration is.

Would you care to make a comment on that?

Mr. MILLER. Well, you know, the President said he wanted to make TVA work in 1980, during his 1980 campaign, and that is our guide on this issue.

But I think as a general proposition, one thing I hope that we stand for—and I hope it is a non-partisan frankly—and that is we need to make Government work. Where we decide that we want to have programs, we need to make them work and work efficiently. I mean, we have these various Government enterprises, and I think we need to bring the techniques of modern management into them and make sure that we are getting the biggest bang for the buck.

I mean, Government enterprises for the most part don't have to meet a bottom line any more than Government generally has to meet a bottom line. It is especially important in these Government enterprises that we try to replicate what they do in the private sector so as to deliver the goods to the consumer.

Mr. SUNDQUIST. Thank you, Jim.

Thank you, Mr. Chairman.

Mr. NOWAK. Mr. Anderson of California.

Mr. ANDERSON. Thank you, Mr. Chairman.

Mr. Miller, how do you view reforms in the pay caps for TVA employees? Could you see this type of reform causing any problems in other Federal agencies?

Mr. MILLER. Yes. Well, obviously there is a gray area.

Mr. ANDERSON. That's the area that worries me.

Mr. MILLER. No. I mean, you've got a point.

I guess what I would say is that this is an enterprise. This is very much like a private firm. And it operates differently. And you can just make comparisons. You are going to have to pay salaries commensurate with what the opportunate costs of the people that you want to get happen to be. And they are going to be higher than some of these pay caps.

So, I think we need to have some limited flexibility there. You wouldn't want to change all salaries there, for sure. But I think some limited flexibility would be a very important step in improving the management of TVA. I have my own views about the rest of Government, which are probably best not to go into right now. But I think you can make a distinction between essentially a Government operated enterprise and the rest of Government generally.

Mr. ANDERSON. Do you think that the role that rate payers have in financing TVA helps justify a less regulated pay structure?

Mr. MILLER. Well, first of all, I am a little bit concerned about the present operation and TVA's having very little oversight about its overall rate programs. And I had a most useful conversation with Governor Baliles when he and his colleagues and I and my colleagues sat down to talk about this. I think there is probably a reason for a little bit more public oversight at the regional level about the TVA's operations. But I think again that we need some flexibility there, and it is mainly just to attract the right kind of talent, not to question the public spiritedness of anybody who works for TVA or their qualifications right now. But I think we need an injection of good management techniques and more efficient operations.

Mr. **Anderson**. Thank you, Mr. Chairman.

Mr. **Nowak**. Thank you. I appreciate the quickness of the questions and the responses.

Mr. **Anderson**. Well, you only gave me two questions, and that was two.

Mr. **Nowak**. That was two. [Laughter.]

Mr. **Nowak**. We will turn to Mr. Stangeland who is the ranking Republican member on this subcommittee. Mr. Stangeland.

Mr. **Stangeland**. Thank you, Mr. Chairman.

Welcome, Mr. Miller. I am sorry that I was late and not able to be at your initial presentation. But I have scanned your testimony very rapidly, and I would just pick up on probably one point to base my question on.

You talk about improved incentives for efficient operations and incentives to include performance based compensation packages, as well as greater external oversight of TVA's financial planning.

Wouldn't you expect that expanding the board from three full time to nine part-time members would help meet these goals? Having the three member full-time board with each member paid at $80,000 probably doesn't buy you a tremendous amount of expertise in running a $5 billion operation. Wouldn't that expertise be provided by expanding that to nine part-time members who might very well have a great deal of expertise in the business world and in finance and whatnot, and then by removing the pay cap? TVA would then be able to hire a manager who would be extremely capable and qualified to do better financial planning and probably better long-range projection as far as electrical needs, fertilizer, and whatever else TVA is doing.

Mr. **Miller**. I think that is what we are essentially saying. We need some flexibility on the pay. And we need, rather than three full-time board of directors that sort of share operational responsibility, a real professional person that would manage the operation and expand the number of members of the board and make them part-time board members, make it more like a firm. This is essentially what the governor's report recommended, and it seems to us to make a lot of sense.

Mr. **Stangeland**. Well, let me say this in closing, Mr. Chairman. I am pleased with your statement as I have been able to peruse it. I think that you too recognize that this is a big business, that there is a need probably to look very carefully at the structure of TVA, that what was suitable in 1933 and subsequent years probably is not suitable today.

Mr. **Miller**. That is exactly right. I think you hit the hammer on the head of the nail.

Mr. **Stangeland**. I got it right. [Laughter.]

Mr. **Miller**. You know, 50 years or more have passed since then.

Mr. **Stangeland**. Let's just hope it isn't this nail.

Mr. **Miller**. That's right.

I think the governor's report was a very good one and, as I say, we support the thrust of the recommendations.

Mr. **Nowak**. Thank you very much.

Ms. Johnson from Connecticut.

Mrs. **Johnson**. Thank you and welcome, Jim.

Very briefly, in Mr. Radin's testimony that will follow yours, he points to the fact that it took you almost two years to fill the current vacancy on the board of directors. Are you familiar with why it took two years?

Mr. **Miller**. No, I'm not.

Mrs. **Johnson**. I would hope that when you return after Christmas, that we look at that because it may be that could either confirm or raise questions about the rationale that is being listed as the reason for the need for the change.

Mr. **Miller**. Could I just say for some time, even before the report and before the governor's committee began to work on this issue, we have had some concerns about TVA and had some internal conversations. And the delay may in part respond to the fact that we were generating our own ideas about how to do things.

But I think that Mr. Runyon ought to be confirmed expeditiously. He is a person of great capability and I think will bring a lot to the organization. But I think we ought to explore these structural changes of the kind that have been recommended by Governor Baliles' committee, and look forward to working with you beginning next year to get something done.

Mrs. **Johnson**. And also, specifically examine the difficulties we had in finding someone of the proper caliber to fill the vacancy on a three-member board. If it is going to take two years every time, there have got to be good reasons. And it may be that people of that quality don't want to move and so on and so forth and disrupt their lives. So, I think through our recent experience, we ought to be able to shed some very considerable light on the virtue of some of the recommendations being made.

Thank you.

Mr. **Miller**. That will be good. I will get back to you on that.

Mr. **Nowak**. Thank you. And we will turn now to Mr. Hastert from Illinois.

Mr. **Hastert**. Thank you, Mr. Chairman.

Just one question that kind of reappears through this whole issue that we have been discussing the last couple of days. It seems like the TVA has a couple of functions. And when we talk about power and the delivering of power at one of the largest power companies in the Nation, and we look at the equivalent salaries for the CEO's of New York Power, Commonwealth Edison or whatever, we see that we are really short. But there are also functions of the TVA, as far as really governmental functions, to look at the welfare and the good of the Tennessee Valley, period.

Is there any thought ever of splitting off those two functions?

Mr. **Miller**. Well, if we were to do something like that, I think we would look at it most carefully. But we don't have any recommendations at the present time.

Mr. **Hastert**. Thank you.

Thank you, Mr. Chairman.

Mr. Nowak. Mr. Petri?

Mr. Petri. Thank you.

Just one brief question having to do with your third recommendation which was that the TVA should be exempted from the Federal pay cap in order to better recruit senior managers. Does it make sense to look more broadly than just at the TVA at collection of Government enterprises that this might be applied to or proceed on a piecemeal basis?

Mr. Miller. In response to Mr. Anderson, I was saying I think you can distinguish between Government sponsored enterprises, GSE's, and the rest of Government itself. And I would not be adverse to looking at the possibility of some alleviation from pay caps. You know, we are talking about a handful or a couple of handfuls of people. That's the reason I said we wouldn't want to probably take the cap off everybody. It shouldn't be a license for everybody to get a big raise or something. But at least at that very senior level, I wouldn't be adverse to looking at that possibility.

Mr. Petri. We do that with the Post Office.

Mr. Miller. And other Government sponsored enterprises, and we do it some with some of the financial agencies—looking at that, but I mean, we have got to keep things within some reasonable bounds as well.

Mr. Sundquist. Tom, would you yield for a quick question?

Mr. Petri. Yes.

Mr. Sundquist. One point I would like to make is that with TVA it is different than most in that the pay for these executives comes out of the ratepayers' pockets. It is not taxpayer dollars. And there is a distinction. So, it is a little easier to——

Mr. Miller. Well, in some of the financial institutions you have a similar situation in revenues, not taxpayer dollars. But I think the same principles would apply, it seems to me. And I have drawn a distinction here between Government sponsored enterprises and Government as a whole although I do have some views about compensation in the Federal Government, but this is not the time to talk about those.

Mr. Nowak. Mr. Shaw of Florida?

Mr. Shaw. Mr. Chairman, in respect to Mr. Miller's time schedule and his current task of having to sell a new type of budget program, I will waive any questions. [Laughter.]

Mr. Miller. Thank you, sir.

Mr. Nowak. We want to again thank you for your appearance, and I want to thank the members for their consideration of your time. However, we would appreciate the continued cooperation we received from OMB.

Mr. Miller. Sure.

Mr. Nowak. And I just want to mention that Bob Dawson has been especially helpful. And of course, he is with you today and has been a former working member of the staff of this committee.

So, we will look forward to filling a lot of the gaps. I think the pay issue is one where you can directly have input. And we would request OMB to give us, if you could, an overview of where we have other similar quasi-governmental corporations and where we have exempted CEO's and other members of their staffs so we could see if there is a pattern that we could develop just on that narrow issue.

Mr. **Miller**. Yes, sure.

Mr. **Nowak**. But I know there will be——

Mr. **Miller**. Mr. Chairman, we would be glad to pull that together for you. Right now we are under intense pressure on following and helping negotiate this existing budget agreement through Congress, but also trying to prepare the 1989 budget at the same time which is a rather herculean task. But we will try to get to this as soon as we can.

Mr. **Nowak**. Well, I would hope maybe the 23rd or the 24th we can get together again.

I want to thank you for your appearance, and we did move the time so that you are——

Mr. **Miller**. Thank you. I really appreciate that, Mr. Chairman.

Mr. **Nowak**. Thank you very much.

[Mr. Miller's prepared statement follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

STATEMENT

OF

JAMES C. MILLER III

DIRECTOR

OFFICE OF MANAGEMENT AND BUDGET

BEFORE THE

SUBCOMMITTEE ON WATER RESOURCES

COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

U.S. HOUSE OF REPRESENTATIVES

DECEMBER 9, 1987

Mr. Chairman and Members of the Committee: I am pleased to be with you here today to discuss opportunities for improving the management of the Tennessee Valley Authority (TVA).

The fact this Committee is holding a hearing on TVA today -- despite the obvious demands on all Members, including the implementation of the bipartisan budget agreement -- is an indication of the importance of this issue.

I'm certain everyone supports the objective of ensuring that TVA operates as an efficient and reliable supplier of power for the Southeast. The Administration believes that the recent Report of the Southern States Energy Board (SSEB), Chaired by Virginia Governor Gerry Baliles, contains important analysis and recommendations that will contribute to the achievement of this objective. I shall return to the Energy Board and the Baliles Report in just a moment.

In recent years, it has become increasingly apparent that TVA has encountered a number of problems:

- Power rates have increased faster than the national average;
- TVA has had to cut back substantially on

nuclear power plant construction, including the cancellation of eight nuclear power plants; and

- In late 1985, TVA had to shut down its five operating nuclear units because of safety-related concerns.

TVA has taken steps to address these problems, and some improvements are underway within TVA's current structure. The President's nomination of Marvin Runyon to be the new Director (and Chairman-Designate) will facilitate these efforts. I urge the Senate to take prompt action on his confirmation.

Because of TVA's problems and other concerns within the region, Governor Baliles and his associates undertook a major study of TVA this past year. As you know, the Governor assembled a distinguished group of 16 high-level business, energy, academic, and interest group leaders with experience in utilities and management of large organizations. After a nine-month review of TVA's power operations, finance, and management, the Baliles Committee concluded that:

> The nuclear power program is the most visible aspect of TVA's problems. But it is not the problem. It is the result of the more basic problem -- an indemic lack of a workable structure, management accountability and adequate compensation.

To address this basic problem, the Baliles Report made four principal recommendations:

1. The current three-member, full-time Board should be converted into a nine-member, part-time Board, for two reasons: (a) it will be easier to recruit high calibre people to a part-time board, and (b) the Board should focus on Board policy and business strategy issues rather than day-to-day management.
2. A full-time, high-level Chief Executive Officer position should be established, and the holder should run the operation on a day-to-day basis.
3. TVA should be exempted from the Federal pay cap, in order to better recruit senior managers.

4. TVA should improve its credibility and accountability, through actions such as establishing a Chief Financial Officer, strengthening the Inspector General function, preparing business plans, and holding annual public reviews.

The Administration is supportive of the general direction of these recommendations. We still are in the process of studying the Report and expect to have a more detailed position early next year.

The recommendations of the Baliles Committee are designed to establish a better framework for policy development, decision-making, and day-to-day management. In reviewing these recommendations, I invite the Committee to consider additional measures to improve incentives for efficient operations. Such incentives could include performance-based compensation packages, as well as greater external oversight of TVA's financial planning. The Administration is also examining such proposals and may make specific recommendations in these areas.

In response to the problems TVA has encountered in recent years, the Board of Directors has initiated several steps to deal with the current situation. However, it is clear that additional corrective action is necessary and advisable. The Baliles Committee recommendations to restructure the agency are a step in the right direction. And, as I said, Congress might well wish to go further. Also, the Administration might well want to implement some of these recommendations on its own, where this could be accomplished without new legislation. But our specific views on this and other details await the results of our own analysis, as well as a review of the current situation by Mr. Runyon.

Mr. Chairman and Members of the Committee: that concludes my statement. I thank you for this opportunity to present the Administration's views.

Mr. NOWAK. Our next witnesses I would like to form a panel with and bring them up so we may hear their testimony. And then perhaps since they have interrelated statements, we would be able to ask questions from them as a panel. And if we could have from the Southern States Energy Board, the Honorable Jerry L. Baliles, Governor of Virginia, come to the middle of the panel and have Elizabeth B. Lacy, the Chairman of the Virginia State Corporation Commission, and Alex Radin, who is head of Radin and Associates also take their seats, we would hear first from the governor as to the input of his overview of the report and any other comments he would like to make. And Governor, thank you again for coming to the hearing.

TESTIMONY OF HON. GERALD L. BALILES, GOVERNOR OF THE COMMONWEALTH OF VIRGINIA, ACCOMPANIED BY MS. ELIZABETH B. LACY, CHAIRMAN, VIRGINIA STATE CORPORATION COMMISSION, AND ALEX RADIN, PRESIDENT, RADIN AND ASSOCIATES, INC.

Governor BALILES. Thank you, Mr. Chairman. To you and to the members of the committee, good morning.

For more than 25 years, the Southern States Energy Board has sought to improve the south's economy through programs in energy, science and technology. The board's existence and its activity reflects a simple reality in the South: our economy depends upon adequate, reliable and affordable sources of energy.

Today, unfortunately, the south finds that one of its major suppliers of energy, an institution of great importance to the region, is threatened. That institution is the Tennessee Valley Authority. And its current predicament led the Southern States Energy Board to organize an advisory committee to take a hard look. As chairman of the Southern States Energy Board when the advisory committee was commissioned, I am here today to review with you the results of that examination.

Let me put our effort into perspective. Less than six decades ago, the South was a land of hardship, the object of three-quarters of a century of exploitation and neglect and the site of unconscionable waste of resources, both human and material. The Tennessee Valley Authority was established to do something about it, and it did admirably. The TVA replaced despair with hope and resignation with productivity. It released the moral and human energy of a people.

John Gunther, who toured the Nation in the 1940's, saw what TVA had accomplished and wrote, "Quite possibly the TVA idea is the greatest single American invention of this century." In short, the TVA produced power and made the South a place of opportunity.

Understand this. The TVA is not just another utility. The TVA provides service in or is adjacent to 11 of the 16 States belonging to the Southern States Energy Board. It provides electricity at wholesale to 160 municipal and cooperative distributors who serve millions of customers throughout the south.

The TVA also provides power directly to a number of industrial customers and Federal installations. Through high voltage interconnections, TVA is linked directly to 13 southeastern utilities and indirectly to all of the companies in the Eastern Interconnected System. So, as I say, the TVA is not just another utility, a fact which makes its current condition all the more ominous.

Consider the nuclear program. At first TVA's nuclear program was to consist of 17 units. Eight units have been cancelled at a loss of $4 billion. Five of TVA's nuclear units have been shut down. Four remain under construction. Altogether TVA's nuclear investments amount to $15 billion and represent almost two-thirds of its total assets, an investment that is producing no electricity and no revenue.

Of course, the advisory board could have looked only at TVA's nuclear program which is the most visible manifestation of the TVA dilemma. However, the board decided to take a broad view of TVA, including its current operational, financial and management structure. The board felt that by addressing the issues involved in the nuclear program, without examining the underlying causes, the board would not serve the long-term interests of the TVA.

TVA operates under a different set of rules from other utilities. It doesn't deal with stockholders or rate hearings, and it has limits on what it can pay top management. Further, the TVA is run by a three-member committee, and it has been without one of its members for a year.

These are the kinds of things the board considered in its approach to TVA's problems. And as it turned out, the board's principal conclusion was that TVA's problems stem from a fundamental lack of a workable structure, management accountability and adequate compensation.

But before I go on to the board's findings, let me briefly describe how it proceeded. For the membership of the advisory committee, the Southern States Energy Board brought together an impressive group of individuals, including Fred Smith, chairman and CEO of the Federal Express Corporation; Alex Radin, who is here with me today, chairman of the Consumer Energy Council of American; Vice Admiral Eugene P. Wilkinson, former president of the Institute of Nuclear Power Operations and the first captain of the U.S.S. Nautilus; and Victor Gilinsky, former member of the Nuclear Regulatory Commission.

In addition, the board included representatives of private and public power utilities, as well as academic specialists.

The advisory board of experts organized three subcommittees to address the issues of organization and management, power and finance. The subcommittees spent a considerable amount of time reviewing statistics, information and reports on all aspects of operations and management of the TVA. Various drafts of their findings were circulated. Differences of opinion were noted, and priorities emerged over the weeks of work that went into these reports.

The final report, however, speaks for the Southern States Energy Board and represents a consensus of all advisory committee members. And I believe this final report offers positive guidelines for addressing the problems of the TVA.

The recommendations that emerged for consensus are these. First, establish a modern board structure, replace the three-member, full-time board with a nine-member, part-time board, making clear the differences between policymaking and the responsibility for TVA's day-to-day operations.

Second, authorize a chief executive officer who is responsible for the implementation of board policy and who can assume all management responsibilities now held by the current three-member, full-time board. Also create senior staff positions to be responsible for developing long-range plans for capital construction, rates and demand forecasts, and plans for adequate financial management.

Third, eliminate the statutory pay cap because the current limit on TVA salaries and the salaries TVA is able to pay is the single most devastating handicap to the organization's ability to recruit and retain qualified staff.

Fourth, establish accountability. The committee recommends the creation of formal rate review processes, standard and routine audit procedures, and independent audit personnel, annual board reviews of construction and operations plans and an annual business plan.

Question: Can TVA respond to billions of dollars of debt and a troubled nuclear program as it prepares for a 21st century marketplace? I believe the answer is yes, but only if the changes recommended in this report are used as the basis for changes now. And this report is the place to start.

Finally, let me say this. The economic challenges we face in the markets of the world tell us in no uncertain terms that we must work together. Within our society competing interests exist. There is no denying that. But I will say to you that if we are to successfully restore the TVA's productive capacity, then it must be the product of concerted, cooperative effort between the public and private sectors of our society.

There is only one way that the changes we have recommended can be made and that is by congressional action. The TVA Act must be revisited and the basic structure of TVA altered to a modern corporate model.

There are those who would argue against reopening the TVA Act contending that now is not the time. I would urge you to reject that argument.

The TVA law has been revised dozens of times throughout its history, and we need to revise it again. We should give TVA the means to bring about corrective action and to get its power program back on course for in the final analysis, the TVA is not an isolated regional issue. It is a great national resource, and with expeditious action by the Congress, we can preserve it for the future.

Thank you, Mr. Chairman.

Mr. **Nowak**. Thank you very much, Governor.

We would now have the testimony of Alex Radin. If you would, just shift the microphone a little.

Mr. **Radin**. Thank you, Mr. Chairman and members of the committee. I appreciate the opportunity of appearing here today.

In the interest of time, I would like to summarize my statement, if my entire statement could be inserted in the record.

Mr. **Nowak**. Without objection, it certainly would be, yes.

Mr. **Radin**. Mr. Chairman, I served for 35 years as executive director of the American Public Power Association. So, I have had quite a bit of experience with public power agencies, both in the

United States and abroad. I am testifying here today on two of the activities in which I have been involved. I retired from the American Public Power Association after a total of 38 years there in June of 1986, and since that time, I have been doing some private consulting work for public agencies. But I also served as a member of the Southern States Energy Board.

The Governor has covered in considerable detail the work of the board, and I won't take time to reiterate some of the statements he has made. Instead, I think it might be more useful for me to address myself to another extensive project in which I have been involved since I retired from the American Public Power Association.

In June of 1986, after I retired from the American Public Power Association, I was engaged by the Tennessee Valley Public Power Association, which represents 160 municipal and cooperative distributors of TVA power, to undertake a rather extensive study of the organizational structure of TVA with special reference to Congressman Flippo's bill which had been introduced in the 99th Congress, H.R. 4559, and which is similar in many respects to the current bill which is before your committee for consideration, that is, H.R. 2025.

My work on this project extended over a period of about six months, and during that time I studied a great deal of the literature on this subject, and I also met with Members of Congress, their staffs, former Senator Howard Baker, and with experts in the utility industry both in the United States and in Canada. I also made a survey of the nine largest local public power systems in the United States to compare their organizational structure with the TVA.

Although I did this work for the Tennessee Valley Public Power Association, I want to make it clear that my report represents my own views and not necessarily those of the Tennessee Valley Public Power Association. I understand they are still studying my report and have not taken an official position on it. However, I am advised that two of the largest municipal distributors of TVA power, the Memphis Light, Gas and Water Division and the Nashville, Tennessee Electric Service, have endorsed my report and its recommendations.

I have, Mr. Chairman and members of the committee, a copy of my full report here which I would be glad to leave for you if you would like to enter it in the record or just to have it available for your staff.

Mr. Nowak. We appreciate that. That was one of the questions, and we certainly will enter the full text of your report in the record.

Mr. Radin. All right. Thank you, sir.

In brief, after this extensive survey, I concluded that the present 3-member, full-time board of directors should be converted to an 11-member, part-time board appointed by the President; that the position of chief executive officer of TVA should be created by statute, which is not the case at the present time; and that the present statutory pay cap on salaries of TVA should be lifted; and that the TVA board of directors be allowed more flexibility in offering salaries to its highly specialized managerial personnel, particularly in its nuclear power program.

I recognize that structure does not necessarily assure either the success or failure of an organization. It is not a panacea. In the final analysis, policy and management decisions are made by people, and those decisions can be made within a variety of organizational arrangements. Nevertheless, the structure of an organization can have an important influence on the quality of decision making and management of an enterprise.

In my study I felt that TVA's organizational structure is flawed in about six different respects. And let me enumerate those.

First, it violates the fundamental principle of separation between policymaking and management. That subject was discussed quite a bit at your hearing yesterday, and I don't think it warrants further elaboration at this time.

Secondly, the fact that the TVA board of directors has statutory responsibility for both policymaking and management diverts the attention of the board from what should be its primary functions, such as establishing policies and assuring that policies are being carried out effectively.

Third, the small size of the TVA board limits the breadth of views that it considers. It is possible that if TVA had a larger board of directors with more diverse interests and background, the board might have been more cautious in inaugurating the extensive nuclear power program that was undertaken during the 1960's.

Fourth, full-time service on the board of directors limits the pool of qualified persons who might be available to serve as directors. The long delay of almost two years in filling the current vacancy on the board of directors attests to the difficulty of finding able board members on a full-time basis. On the other hand, I am convinced that under today's conditions, distinguished citizens could be attracted to serve on a part-time board of directors. The same individuals would not be willing to make the sacrifice of moving and giving up other responsibilities in order to serve in a full-time capacity.

Fifth, although the TVA board of directors created the position of general manager and has taken steps to strengthen the authority of that office, the fact remains that the position of general manager is not called for in the TVA Act. In any event, the general manager's position must inevitably be subordinated by the fact that the board itself has statutory responsibilities for the management of the agency.

And finally, the problem presented by TVA's pay cap must be addressed. By limiting the compensation which has been paid to its top level staff to level IV, which is presently $77,500 a year, the TVA Act has made it impossible for TVA in recent years to hire and retain the managers and specialized technical personnel who are needed especially for its nuclear power program. TVA, therefore, has been forced to resort to the expedient of hiring contract employees at salaries in some cases considerably in excess of the present Federal pay cap to take over key management and technical positions. TVA must regain control over its nuclear power program as quickly as possible, but it will not be able to do so unless something is done about the pay cap prescribed by the TVA Act. I think the record of the Nuclear Regulatory Commission indicates very clearly that they are quite insistent that the operations of a nuclear power program should be conducted by the management of the organization rather than contract employees.

In view of these problems, I recommended, among other things, the following. Replacement of the present 3-member, full-time board of directors by a presidentially appointed 11-member, part-time board. I accepted the provision in Congressman Flippo's bill that 7 members of the board be selected from the States within the Tennessee Valley, but I suggested that the board be enlarged from 9 members, as provided in Congressman Flippo's bill, to 11 so that 4 members could be chosen at large from any State.

My reasons for doing this were first, to permit more diverse representation if you had a larger board; secondly, to allow more representation from outside of the valley because of the fact that TVA is an agency of the Federal Government and its work has national implications; and thirdly, to permit larger representation on the important committee activities of the board. I think it is pretty clear that in a board of directors much of the important work is done by the committees, and you need to have a large enough board to have committee representation.

Secondly, I recommended that members of the board should be appointed for staggered five year terms rather than three years as called for in Congressman Flippo's bill so that no one President, unless the President served two terms, could normally appoint all directors of the agency.

Thirdly, I recommended a salary plan that embodied the following elements. First, I felt the TVA should every year make an annual survey of the prevailing salaries and benefits and incentives for similar work in private industry and Federal, State and local governments. After having made that annual survey, which is customary for many large organizations, the TVA board should approve a compensation plan. That salary plan would then be presented to Congress and lie before Congress and the public for 30 days. The chief executive officer then would be directed to fix the salary and benefits of employees whose salary is not greater than the annual rate payable for positions at the current statutory limit, which is level IV of the executive salary schedule, and the board of directors would have to approve any salary beyond level IV. So, it would be a limited number of employees whose salaries would be above level IV, the existing cap, and those would have to be approved specifically by the board of directors and not the chief executive officer.

And lastly, I made a number of other organizational changes which I will not take the time to go into today. Some of them, in fact, have been incorporated in H.R. 2025.

With respect to the recommendation that the TVA board be converted from a 3-member, full-time board to an 11-member, part-time board, I should point out that the suggested form of organization is consistent with prevailing practices of both private and public corporations, and is also similar to the pattern followed by the municipal utilities and rural electric cooperatives which distribute TVA power.

Incidentally, in the nine large public power organizations that I surveyed, the average number of the board membership was 11.

Mr. Chairman, quite a bit was said yesterday about the Ontario Hydro system. And I think that is quite pertinent to your consideration of this issue because TVA was modeled in many respects after Ontario Hydro. In fact, Ontario Hydro has about the same amount of generating capacity as TVA. In my early days with the American Public Power Association, I knew the person who was sent by Senator Norris to Ontario to study the operations of Ontario Hydro.

So, I thought in my study it was very pertinent to see how they had progressed. They are organized in much the same way that TVA is organized—or they had been. They originally had a three-member commission, two of whom were full-time and one was part-time. They decided in the mid-1970's that that was no longer a feasible and efficient manner of operation. So, they did change their organizational structure and now have a 13-member board of directors, 11 of whom are part-time.

I inquired about whether or not they were able to get top-notch people to serve on the board. They said they were. They had a very distinguished group of board members who met once a month. They consisted of scientists, lawyers, a businessman, a former labor official, and so forth.

As I pointed out in my report, the issue is not whether the TVA board of directors should consist of 3, 9 or 11 directors. There is no magic number, and it would be a mistake if major attention were focused on a numbers game.

The real issues are whether the board of directors should be a broadly based, representative, responsive policymaking body rather than a body which at present is of limited size and has responsibilities for policymaking and management; whether the day-to-day management of the agency should be delegated to a strong, experienced executive officer whose position is invested with the powers mandated by law and whose salary is not subject to the present Federal pay ceiling; and whether TVA will have a compensation system that will permit it to attract and retain the highly qualified technical and management personnel that are needed to manage and operate this agency.

Mr. Chairman and members of the committee, I will not go into the details about the SSEB report. That has been covered. There are some differences between their recommendations and mine, but they are in detail. While I have some pride of authorship in my report, I along with every other member of the Southern States Energy Board endorsed the recommendations of that report although they are not set in concrete. And I am sure that your committee will have some of its own thoughts about this legislation and its relationship to the recommendations of the SSEB.

At the time I submitted my report to the Tennessee Valley Public Power Association in January of 1987, I did not at that time recommend that the organization initiate a campaign immediately to bring about the legislative changes I had proposed. I felt that such a campaign would distract the TVA board of directors from the pressing problems it was facing in connection with its nuclear power program. Furthermore, given the time that would be required to pass and implement a new law, I did not feel the changes could take place in sufficient time to be helpful in resolving TVA's immediate problems.

However, almost 11 months have elapsed since my report was submitted and TVA now appears to be on the verge of resolving some of the most pressing problems of its nuclear program. Nevertheless, the long-term structural problems continue to exist. They will not go away when the first or additional nuclear plants go on the line. If these structural problems are not resolved, sooner or later they are likely to result in flawed and costly policy and management decisions, and TVA will not be able to attract and retain the top ranking management it requires.

I therefore believe that the time has arrived for the Congress to begin seriously the process of considering the changes which Congressman Flippo, the Southern States Energy Board and others have recommended. And I want to commend your committee for initiating this process.

Thank you very much.

Mr. Nowak. Thank you very much, Mr. Radin.

Before we get into the broad questions that both of your reports have raised, I want to bring forward the Chairman of our Appropriations Committee here in the House, the Honorable Jamie Whitten, and give him the opportunity to testify as he has to get to another appropriation meeting, and he also is working on the budget negotiations.

TESTIMONY OF HON. JAMIE L. WHITTEN, A REPRESENTATIVE IN CONGRESS FROM MISSISSIPPI

Mr. Whitten. I appreciate very much your courtesy. I do have an appointment at 11:30 and I have to be there.

I have been actively interested in the TVA since I came to Congress in 1943.

During that period, I have seen interests throughout the United States who would like to get rid of the TVA and set up private power companies. I have seen it when they were willing for TVA to spend any amount of money if they would just raise their rates.

The other thing is frequently forgotten. I remember how it was there before we had TVA. I also have seen lots of good intentions shown as legislation is initiated, but they don't realize what kind of barnacles might be pick up in going through the House the Senate and at the White House level.

I would like to call attention to the fact that in a big part of seven States TVA does those things like agriculture and forestry fertilize research, energy research and various other activities. There are other Federal agencies that take care of these things in other parts of the country. If you were to get rid of the TVA, you would have to have the same functions picked up by six or eight other agencies.

Well, TVA hasn't had a nuclear-power reactor accident like you had in Russia or any other nuclear-power incidents like you have had in some parts of the United States. TVA has got some things that need to be straightened out, but let's let them straighten them out. We should not risk carrying a bill through Congress knowing that it could pick up many things that would not be in the best interest of the people of the valley.

Two years ago I just happened to walk into a conference committee meeting where they were fixing to turn all the legal problems of TVA over to the Justice Department. I felt that would be a big step toward abolishing TVA. I managed to get them to change it so that they would call on the Justice Department only when the TVA directors want to.

TVA has problems that need to be straightened out, but we do not need to abolish it and start over. It is highly risky to carry any bill through now because you don't know what it would look like when it gets through. In the meantime, if you are going to consider a charge you ought to be very careful in our approach.

Now, again, it is not a bad idea to have a public power source to have a yardstick to measure private power. I say this because of my many years of experience.

I have been in many contests, and made the closing argument many times. I happen to live in an area that is not served by TVA. May I say one of the advantages I have is that I remember when and what it was like years ago. I am just telling you we are playing with dynamite when you try to take this through the Congress. Even the best intentions often do not come out to be true.

I appreciate your hearing me, Mr. Chairman, at this time have because I have to get back to some other urgent problems. We have got all the appropriations in one bill the CR, and my name is on that legislation all the good pieces and all the bad. [Laughter.]

Thank you very much.

Mr. Nowak. Thank you very much, Mr. Chairman. We will take your words under advisement and certainly be in contact with you as we make progress in this area.

We will return to the panel, and let me ask first, if I may, a couple of questions, Governor.

Under the proposals for a larger "part-time" board, would you envision that the board would have any of its own staff, or would it rely solely on the CEO and the staff of the CEO to supply it appropriate information?

GOVERNOR BALILES, MS. LACY, AND MR. RADIN—RESUMED

Governor Baliles. I don't recall that the specific point was discussed at least at the general board meetings. But I think the proposal contemplates, Mr. Chairman, a policymaking board, part-time, bringing together on that board backgrounds in finance, law, accounting, power production, the types and diversity of opinion that is not now reflected in the makeup of the TVA three-member board.

The board would be policymaking. They would establish the parameters, the guidelines, for personnel, for construction, for financing, for rate review, those types of things, set the policy guidelines. And then it would be up to the CEO managing the staff to implement and to carry out those policies.

It reflects the structure not only of modern corporate America, but of many State agencies in our various States. I can point to hundreds of State agencies in Virginia where I appoint citizen members reflecting a background of experience to develop the policy. They go home and the CEO carries it out with a staff. That is what we would contemplate here, but obviously it could be structured differently when the legislation is written.

Mr. NOWAK. One of the objections that has been stated over the last few weeks while I have been reviewing this matter is the complexity of TVA, not only in its power production but in the other areas that it does substantial work in, and some of it is done with appropriated money, some of it with power and appropriated money, and, even though they try to segregate funds very carefully, they still have some overlap. The suggestion is made that you need full-time people on the policy board because of the "complexity" and the intermingling of all of the structure that exists in TVA to be able to relate to—perhaps their argument goes—so you will understand what is being proposed with enough detail to take the full responsibility for making those decisions instead of being a rubber stamp.

I wonder if you could address that. Perhaps, Mr. Radin, you would too. There is a difference.

Governor BALILES. Well, let me point out that the people that we brought together from both public and private power, the academic backgrounds, as well as other fields of interest, all concluded that one of the problems is the diffusion of responsibility, the lack of a single, coherent focal point for management making and carrying out the decisions. What you have now is an entity that combines not only policymaking and executive functions, but also the rate making process all rolled together looking at nuclear power, hydro, fossil fuel, all of the various problems that they have to confront. And it tends to become insular.

What you need in a body that big, that important to economic development is a diversity of opinion that can help shape the policies that then some corporate executive type can carry out.

The membership of this advisory committee I think brought in one place years of experience in management, in power production, and they all reached the same conclusion, that the management in the performance of TVA could be improved. And the reliability and dependability and affordability of power in the future could be assured through this restructured model.

Judge Lacy, who is the chairman of our State Corporation Commission in Virginia, was the chair of this advisory committee. She and Alex Radin could amplify the comments that I have made.

Mr. NOWAK. Ms. Lacy?

Ms. LACY. Thank you, Mr. Chairman.

I think that while certainly the operation of any power entity, whether it is investor owned or public, is complex. There is no question about it. And yet, it is no more complex in terms of diversity than sitting on the board of directors of any large holding company as we have diversification in private investor owned companies where they have not only generation facilities, they now have land developments and so forth, or perhaps sitting on a board of directors of a large bank holding company which certainly in this day and time is becoming incredibly complex with deregulation and other matters that banks are getting involved in.

So, I think to say that it would be impossible for a board of directors to have a knowledge of what TVA is all about, that to an extent which would require nothing more than rubber stamping the actions of a CEO is, in effect, to indict most board of directors of any complex organization. And certainly that is not the case in America, the way we operate in a free society.

I do not believe—and I don't believe the committee which again had not only Fred Smith from Federal Express, the chairman and CEO of Reynolds Metals Corporation was on this board, we had public and private CEO's that serve on other boards of directors—I don't think that it is in any way an adverse type of arrangement for TVA the way we are recommending it.

Additionally, it will bring various perspectives to the decision making process of TVA which are now not available because the full-time board members do nothing but look at those particular items. Policy should have a broader scope, and this is what the advisory committee is recommending.

Mr. RADIN. I would endorse what Governor Baliles and Judge Lacy have said and add that there are a number of large public power organizations in the United States that admittedly are not quite as large as TVA, but they are large, like the Department of Water and Power in the City of Los Angeles, the New York Power Authority which supplies a substantial portion of the power in the State of New York, and many other large public power organizations, some of which I surveyed in my report. All of them have part-time boards of directors. Not a single one has a full-time board. And they seem to be operating very efficiently. Their record is excellent.

I would make this additional point and that is, if you have a full-time board, there is also the danger that the fact that the board is there full-time invites them to get involved in management decisions. I think that is a possible detriment of having a full-time board if you want to separate policymaking from management.

So, I have no concern about a board fulfilling its responsibilities to set policy for the organization.

Mr. NOWAK. In your report, as you heard your experts in the various areas testify before you in trying to compile this report, I wonder if there was any identification of differences between the structure and the ultimate decision you have made here to separate the policy from management. Can you see any difference between going back 50 years ago when this act was instituted and the play of the structure in today's environment?

Governor BALILES. Mr. Chairman, let me suggest that Mr. Radin respond to that because he brought to the advisory committee's attention the fact that a similar organization in Ontario reflected the management structure that we now have at TVA. And they have since changed.

Mr. RADIN. Yes. In fact, in the debate on the TVA Act which took place over a period of years, there was some consideration to a part-time board at one time. I don't know how the decision was ultimately made to have a three-member, part-time board. But I suggest that there is a real possibility that it was modeled after Ontario Hydro because I do know for a fact, having discussed it with the person who worked with Senator Norris on this subject, that they did spend a lot of time—Senator Norris and this gentleman, Judson King—to study Ontario Hydro. I think it is more than a coincidence that Ontario Hydro originally had a three-member, full-time commission.

Mr. NOWAK. You have had the experience with Ontario Hydro. Could you give us a brief overview of what has—after their study and new structure, what their structure looks like today?

Mr. RADIN. Yes, sir. They have a 13-member board of directors of whom 11 are part time. They have two full-time persons on the board, a chairman and a president. All the members of the board with the exception of the president are appointed by I believe the lieutenant governor, but it is really on the basis of recommendations of the premier.

The full-time persons, as I indicated, are the chairman and the president. Their organization is an arm of the Ontario government, and they are somewhat more closely controlled than TVA is. However, the position of the chairman is one that relates primarily to the government of Ontario. The president is the chief operating officer of the organization, and he runs the agency on a day-to-day basis. And they have indicated in several respects that the president is the person who manages the organization in several respects. And one of the ways they have done that is to structure the salary so that the president actually receives more money than the chairman of the board.

There is nothing in the law that requires that the members of the board who are part time, the 11 part-time board members, are representative of the geography of the province. However, by custom they have tried to select people from throughout the province who are members of the board, and by custom also they have always had two members of the board who are representatives of the municipal distributors of Ontario Hydro power.

All the members of the board are appointed by the government with the exception of the president, who is selected by the members of the board and who is the equivalent of the chief executive officer of the organization.

Mr. NOWAK. I would assume that was done. They have broadened the base of policymakers by incorporating that structure. My question relates to the question I had asked previously. In today's world is there a trend to broaden the accountability of all public and private institutions that would require us to look at this in a different view from Senator Norris' view which may have been a little more narrow and restrictive back in 1933?

And as the second part of that question, some institutions seem to function well to begin with when there are vital decisions that have to be made very quickly without very broad input in order to motivate or get a development as a catalyst for a much broader impact in our economy. And we can go through some of the different impact statements today that are required for highway construction, to develop a wetlands perhaps, to change the course of a river, to put an obstruction in as small as a boat dock into a body of water that 50 years could have been done. Today there are many, many other concerns that have emanated because of the broader impacts. And I guess that is what I am trying to elicit.

And Ms. Lacy, I think your office would seem to have on a daily basis those kinds of concerns and opportunities. And I wondered if that was a part of the interplay of the recommendation.

Ms. **Lacy**. Referring back and recalling the discussions that went on to the recommendations, I think there certainly is the recognition that everything is more complex. When TVA was started, the idea certainly of nuclear power production was unknown. Even the issue of fossil generated power production was not in the picture. They were seeing power, if at all, coming from the hydro, and the land reclamation was the issue.

TVA is involved in a number of other things. Now it is much more complex, and it therefore cries out, as in other agencies or in other businesses, for more input because of the complexity.

On the other hand, that organization must also be structured in a way that does allow appropriate delegation of operating authority in a timely and efficient manner. You cannot have a board of directors of 3 or of 15 or of 9 who must make every single daily decision to get every single thing done.

And that is the distinction this committee was trying to make, to allow for a good input in terms of policymaking decision on a broad base while also providing responsibility and ability to make the kind of operational decisions in a timely manner and holding someone accountable. I think that you see this in other kinds of private and public institutions.

Yes, I think it is a function of the complexity of today's society versus that of 1933. But I think we don't have to look at that as a bad thing, a negative thing, but rather something that can really contribute to a better end product than a closely held or very small input for both policy and operation allows us to have in today's society.

Mr. **Radin**. Mr. Chairman, can I respond to that question also?

Mr. **Nowak**. Sure.

Mr. **Radin**. I think again there is an analogy here with Ontario Hydro. As is the case with TVA, they started out as a hydro organization, but now have 16 nuclear plants in operation, at least they did when I was visiting them and working on this report.

They found during the 1970's that a number of problems had arisen from the complexity of the society and the consideration of environmental issues, and such issues as that. That was one of the principal reasons that they decided that they needed to have a broader based board and that the three-member board was no longer completely adequate to the situation.

Mr. **Nowak**. Let me ask one final question. Then I will go to the panel.

Let me refer you to page I-6 of your report, and I will quote the sentence in the middle under the organizational contribution heading, about the fifth line down. "The management structure may have been inadequate to make effective decisions about how to conduct and how to scale back on the nuclear program. Beyond structural impediments, however, TVA's institutional background certainly played an important part in initiating and sustaining the commitment to the program."

And I wonder if any of the panel members could broaden the statement and look and describe what is meant here by the "institutional background."

Governor **Baliles**. Let Judge Lacy answer that, and then I will finish up with a comment.

Ms. **Lacy**. Mr. Chairman, I think the particular is the second sentence that you just read to us. What the committee meant in that sentence was that TVA has long served as not only a provider of power but also as an experimental—has been involved in many demonstration projects in the fossil fuel area. TVA has had a tremendous and a very well-known good record and has been pointed to and has actually been an experimenter in a number of areas.

And TVA went into the nuclear business early on. And it in effect was also an experimenter with the early-on nuclear plants. And that was what the committee was meaning when they talked about getting into, and the continued commitment to the nuclear development we felt was also a result of the TVA mission which was to be a leader in the field, which it had done so often in the past and that that institutional level approach to issues sustained also their commitment to this particular demonstration.

Mr. **Nowak**. If I just may make an addition to that question. If you would have had a 9 or 11-member board, do you think those decisions back then would have been changed dramatically?

Ms. **Lacy**. That is a very difficult question to answer, Mr. Chairman. Obviously I think the potential may have been there because you would be having people coming from other areas perhaps with a different viewpoint towards the need for nuclear energy.

Mr. **Nowak**. So, you would get broader input into the process.

Ms. **Lacy**. Yes.

Mr. **Nowak**. Governor, I'm sorry.

Governor **Baliles**. Mr. Chairman, I think your comment about greater accountability and expectations today of boards is right on target. I think the complexity of our times requires it.

What you have in the current institutional setup are three members and only two now in place who not only do the long-range thinking but are really tied up with all the daily management problems, financial questions.

If you make the statutory institutional change, what you do is to bring that diversity of thought and background and experience to bear on these questions. Do we need any more nuclear plants? Do we cancel? What about financing questions in the future? That kind of thinking and approach to these problems I think strengthens the accountability of the board to make the broad policy decisions. Once those decisions have been established and the policy framework created, then you need a strong management type person who can go in there and operate the staff, demand accountability from middle and lower level employees and make the thing operate.

Mr. **Nowak**. Let me turn to Mr. Sundquist.

Mr. **Sundquist**. Thank you, Mr. Chairman, distinguished panel. Mr. Chairman, if it has not been done, I would like to move that the Baliles report be made part of the record.

Mr. **Nowak**. Without objection. I think it has been already accomplished, but we will do it again. It is such a good report.

Mr. **Sundquist**. Governor, yesterday during testimony one of the arguments that was given for opposing the change in the TVA board structure was that a part-time board couldn't keep a finger on the pulse of TVA. I made the point that we don't elect three directors as a governor and three directors as a president. Further, in your State you have part-time legislators that are paid on a per diem basis. And that seems to offer a check and balance. And I don't think anybody has ever accused you or any other governor of having the ability to pull the wool over the eyes of the directors.

Governor **Baliles**. I wouldn't go that far. [Laughter.] There are a lot of accusations made, as you know. But I understand your point.

Mr. **Sundquist**. When TVA was created in 1933, a relatively small number of employees and dollars were involved, compared to today. Now we have over 40,000 employees and $5 billion a year, as I understand.

What you point out in the report so ably is that we have come a great distance. And it seems to me that whatever objections we've been hearing about your report, don't enter so much on the merits of the proposals as the politics of them. Much of this, I believe, is the result of internal feelings from some in TVA who are opposed to almost any change.

The main argument we've heard in opposition to the Flippo bill or the Radin and Baliles reports, is that it is the wrong time. Concern has been expressed that the Administration will exploit TVA if legislative momentum builds.

Today we've heard from Jim Miller. I think some folks might have been surprised to hear Jim say that he wants to work with us to make it more effective as an organization. I was reassured by his testimony.

And based on the fact that Howard Baker is Chief of Staff at the White House and has been perhaps the godfather of TVA for a number of years and based on the legislative strength of our TVA congressional caucus, I don't have a lot of fears about our ability to restructure TVA without detrimental tampering with the TVA Act.

Given the strong support of Chairman Whitten for TVA, it seemed to me that if you total up all these things—including Chairman Whitten's commitment to TVA—now might be the best time to make those changes. We may miss a window of opportunity to make the structural changes in TVA that need to be made for the next century. If we don't make these changes, that the mission of TVA may not be fulfilled.

Would you care to comment on that?

Governor **Baliles**. I am delighted to see the growing support for the need to change the accountability, the structure and the approach for the operation of TVA in the future. I am delighted with the support.

But my concern really goes to something else. I think today economic growth depends upon a reliable, dependable supply of electricity. It is not just the consumer who needs it for the toaster and the light switch. But if you want to attract industry and jobs to your area, and there are high intensive users of electricity, they know that it takes 10 to 12 years to build a new plant. They know the kind of financing required. And they know that today you may have it. Their question is will it be there in 10 years when they need it when they want to expand.

And in this TVA region, including just two or three counties in Virginia, we don't really depend on TVA for electricity, but I can tell you in the two or three counties in my state, that is the area where we are trying to attract industry. The kinds that we are looking at, the people who have contacted us want to know about the reliability of electricity in the future.

I am concerned about economic growth. And we need to make sure that TVA is there in the future as it has been in the past. We think the changes will give us that assurance.

Mr. SUNDQUIST. I agree with you. In fact, in my district we stand a chance of losing the expansion of an existing industry because of their projections on TVA rate costs.

Mr. Chairman, I would like to yield to our distinguished ranking member who has to leave, if I could, and then have one more question after.

Mr. STANGELAND. Yes. I thank you for yielding, Don.

First, I want to just say this. In spite of what the Chairman of the Appropriations Committee has said here today—and I have the greatest respect and admiration for him—it seems to me as an impartial, outside observer from Minnesota that one of the things that absolutely has to be done is the pay caps have to be lifted. And if you lift the pay cap and you allow this three-man board to go out and hire a CEO at $250,000 or some other figure, whatever it might be, to manage this operation and the statutory language continues to give that three-man board the responsibility of managing, I think that is incomprehensible.

I commend the gentlemen from the TVA area and the lady who are pushing this legislation. And I just want to commend the three of you. Looking at Congressman Flippo and Congressman Sundquist's bill and then looking at your report, how closely they parallel. Really, I would not have expected that, since the views come from three fairly independent directions. And that tells me that something can be done. That tells me we are a lot farther down the road than a lot of people realize in doing something responsible.

Someone said yesterday, "Don't act in haste and do something that is going to disrupt or damage TVA further." And I think we are going to be very deliberative of this. But to have the background material that you provided us, I think makes it seem like it is very possible and very doable.

And just as an outsider, I have no questions for you frankly because you answered most of my questions. But I am going to allow the gentleman who is most familiar with TVA on this committee, Mr. Sundquist, and Mr. Flippo, to ask the questions and to delve into your report further. I thank you very much for your testimony.

Thank you for yielding, Don.

Mr. SUNDQUIST. Thank you very much.

Mr. Radin, I think you and I shared some early skepticism about whether this was the right time. I have come to the conclusion that it is. You spent a lot of time on that. You are one of the premier experts in the best sense of the word on power in this country and where we are headed. The power supplier in my hometown of Memphis called me and told me to listen to Alex Radin.

Could you comment on why you think the timing may now be appropriate?

Mr. **Radin**. Well, with all due respect—and I thank you for your comments—I think the members of this committee are much better prepared to answer that question than I am.

But having said that, there is certainly some danger in opening up the act. I understand the concerns of various people who have expressed that opinion. But I have enough faith in the power of the Tennessee Valley delegation both in the House and the Senate to stop any legislation if it appears to be adverse to the interests of the TVA area.

Also, I think there is some view that perhaps the appointment of Mr. Runyon will obviate the necessity of this legislation. I only met Mr. Runyon the other evening, and by all accounts he is an excellent person. But I come back to the fundamental position that you do not build a structure of an organization on the basis of an individual. We are all mortals, and Mr. Runyon may turn out to be the best chairman that TVA ever had. But he is not going to be there forever, as excellent chairmen in the past have not been there forever. So, I think there is a continuing need to address the structure of the organization regardless of the merits of a particular chairman.

There is certainly some danger. I would like to see what the OMB comes up with later. They may propose some ideas that I would not be sympathetic with. If that is the case, using the expression I have heard Congressman Flippo use in the past, then it is time to pull the plug on this effort, and I would hope it could be done.

Mr. **Sundquist**. I agree with that, and I thank you for your comment.

Incidentally, I have talked to my colleague from Alabama about some provisions in the bill that would not preclude Mr. Runyon from being the CEO. If he is going to be a good chairman, then it stands to reason that he ought to be considered strongly for the CEO. We will make sure that he is not precluded.

So, your comment about structuring this for the future I think is critical, Mr. Radin. We are talking about the next 100 years, and we can't base it on the strength of one person.

In this body there is a time for legislation when reasonable people can get together. And, as Mr. Flippo said, if anything were to get out of hand, the plug could be pulled.

Judge Lacy, I want to thank you again for your expertise. I have sat before you before, and I appreciate and value your opinion.

Thank you, Mr. Chairman.

Mr. **Nowak**. Thank you very much.

Mr. Anderson from California.

Mr. **Anderson**. Thank you, Mr. Chairman.

What are the major factors that you feel indicate the need for management reform at this time at TVA aside from the pay scale? I mean, I think that is incidental. Is there something wrong? What are the major factors?

Ms. **Lacy**. There were a number of things that we saw when we went down and talked with TVA, got a lot of information from them.

The first thing that did strike, of course, was the fact that you had a three-member decision making group, which was very unusual and certainly was somewhat different from the type of approach that many of the members of the advisory committee were used to. And so, they looked into that very carefully. And I think there was just a very definite feeling that too often policy and day-to-day implementation got intertwined in a nonproductive manner. Too much time perhaps had to be spent by the three directors on matters that really should have been delegated or were responsibilities that should have been laid elsewhere. It did not give the directors an ability to stand back and really contemplate policy because there was too much paper that had to get across their desk. That became very evident to the committee initially.

Mr. **Anderson**. But there are boards that have too many members on them. I happen to sit on some business boards. And we sometimes have too many members on the board. I sit on one where there are 11 of us. We are trying right now to get it down to a more workable number. We also have a CEO, but we are on the board that directs the company and we sometimes have too many people coming from all over. It is not easy.

How would you rate the TVA's performance in the non-nuclear energy field at this time? Is that the main problem we have?

Ms. **Lacy**. Well, in terms of non-nuclear but power performance, they have had a very good track record in terms of the operation of their fossil units. As some of the subcommittee reports indicate, there are some problems there and some things that we feel need to be addressed.

In the non-power operations which are the appropriated funds, those seem to be operating quite well although I must say the advisory committee did not spend an extended amount of time looking at those particular operations.

The hydro units do seem to be up and operating well.

When you talk about wanting to go from 11 to a smaller number of board members, that is very true. And as we have said before, there is no magic number. We have picked a nine-member board as being a workable number for setting policy. Now, certainly the Congress may have a different view on that, they may want to have a seven-member board. I think certainly Mr. Flippo, as well as Mr. Radin, have said that it isn't so much the number we pick as the importance of separating policy from day-to-day operations.

TVA had a management study done by Coopers and Lybrand, which they shared with us, which emphasized the same point that with three full-time directors it was very difficult to accurately separate policy from day-to-day operations and prioritize their time and energies.

Mr. **Anderson**. Thank you, Mr. Chairman.

Mr. **Nowak**. Thank you very much.

Now we will turn to another member. But before I do that, let me ask one other question.

Are you familiar with the coal-fired plants? Do you have one in Virginia?

Ms. Lacy. Yes, we have one.

Mr. Nowak. And there have been different incentives or different experiments, if you will, with trying to reduce the pollution from those plants. Could you tell me what Virginia has done about that and how you interact with TVA? They own the production facility. Right?

Ms. Lacy. Well, as Governor Baliles has said, Virginia only has three counties which are actually served by TVA. And we have no production facilities owned by TVA in Virginia. So, insofar as pollution reduction or acid rain issues on TVA properties, the Virginia Corporation Commission would not be involved with that.

We, of course, do have a number of coal-fired facilities which are run by our investor-owned utilities such as Virginia Power, Appalachian Power. Both of those power companies have been engaged in a number of efforts to reduce the pollution from the coal-fired units which would include the sulfur level coal which they use. Scrubbers were necessary. And of course, we are all looking at the acid rain legislation at this time.

Mr. Nowak. This is probably a question I should direct right at the producer. But I am just wondering. You mentioned there is a difference in level of sulfur in coals. Are they mixing, to your knowledge, the lower and higher sulfur?

Ms. Lacy. I would feel very hesitant to answer that, sir.

Mr. Nowak. Okay.

Ms. Lacy. I apologize.

Mr. Nowak. That will be a question that we will get to later.

Ms. Lacy. It will vary from power company to power company.

Mr. Nowak. Mr. Packard from California.

Mr. Packard. Thank you, Mr. Chairman.

Mr. Whitten suggested that we forget legislation and get on with solving the problems. In your judgment can problems be solved short of legislation?

Governor Baliles. No.

Ms. Lacy. No.

Mr. Packard. Your recommendations indicate that it is going to require some legislative changes in the board structure and pay caps and a variety of other things.

The other point the gentleman brought out was that the problem with legislation is that it has a potential of collecting barnacles. What kind of barnacles do you think this could collect that would ultimately render the legislation either ineffective or burdensome?

Governor Baliles. Mr. Packard, I recognize the concerns that legislation reopening the TVA Act might collect barnacles and produce something that would be undesirable.

We happen to think that the recommendations are limited. Create a modern corporate board structure to deal only with policy, a CEO to carry out that policy, the elimination of the statutory pay cap so you can attract and retain good people and, four, establish some kind of financial accountability in the system. I think a bill can be drafted and placed before the Congress that would clearly spell out the reasons for that.

Now, I do not know what else might be added to or subtracted from the whole body of TVA law. That is something that you all and others could answer far better than I.

But I would point out that the objection generally is if we open up the act, it will pick up these barnacles as it moves through the Congress. In fact, the legislation since 1933 has been opened up, has been the subject of revision in 1935, 1939, 1940, 1941, 1948, 1952, 1954, 1959, 1966, 1968, 1970, 1972, 1974, 1975, 1976, 1979. Apparently the bill was revised to meet specific needs without collecting all the barnacles.

It seems to me that the proposals that are here are limited and are tailored at correcting problems that will help put the power program back on course.

Mr. **Packard**. Are there any of the members of TVA, the State members, that have either opposing views of the recommendations or the legislation, or have other proposals that they would like to see included if the act is opened up?

Governor **Baliles**. Mr. Packard, I would suggest that question be directed to them. I understand that one of the members of the TVA board, of the three members, now two, has a more favorable view of this legislation than previously expressed. But I would suggest that those questions should be directed to the two members of the board.

Mr. **Radin**. Mr. Packard, if I may comment on your question. I think the Southern States Energy Board did consider and rejected what I would regard as two major barnacles. One is denying TVA access to Federal Financing Bank financing, and secondly, putting TVA under the jurisdiction of the Federal Energy Regulatory Commission. The Southern States Energy Board considered both those recommendations and felt that they were not desirable. If Congress should get involved in those areas, I personally would regard those as unacceptable amendments.

Mr. **Sundquist**. Would you yield?

Mr. **Packard**. I would be more than pleased to.

Mr. **Sundquist**. I thank the gentleman from California.

I think it is safe to say that there are some in the valley who would oppose any changes, but I think that climate is changing. More and more people who have opposed it in the past are no longer opposed.

Any barnacles that would come to the bill that would make it unacceptable to those of us who are close to TVA would not come from within the Tennessee Valley. The threat of that comes from outside of the Valley, from people who perhaps don't have the knowledge of TVA, who haven't lived with it, seen what it has done, and might be opposed to it. So, it would come from outside of the Valley, not within.

I thank the gentleman for yielding.

Mr. **Packard**. Thank you, Mr. Chairman. That's all the questions I have.

Mr. **Nowak**. Mr. Hastert from Illinois.

Mr. **Hastert**. Thank you, Mr. Chairman.

I would like to go back to a question posed by the Congressman from California, Mr. Anderson. What is broke? And I think we are trying to focus on that. And over the discussion of the last couple of days, the question comes back what is broke.

Am I wrong? Basically the thing that generated or brought this to a head, so to speak, is there have been some decisions made as far as building nuclear plants. That is one problem. Is that correct?

Governor BALILES. Not just perhaps questionable decisions, but the very fact that the plants that are now completed are not acceptable for safe operation. You have four plants that are under construction and not moving that far along.

One of the major problems that has been discussed by many groups is the question of pay cap. Salaries paid to chief executives in private industry in the utilities in this country range——

Mr. HASTERT. Let me interrupt you, Governor. I understand that. And also, in the State that I come from we have nuclear plants that are under construction, have been under construction for 15 years. And we pay that guy $250,000. It happens to be the chief executive officer of that power. You need talented people. I understand that. But you can pay people a lot of money and still not get a good product.

But I am just trying to identify—is that a problem? Those decisions are a problem. Is that correct?

Governor BALILES. Not only a problem, but the people who looked at this thing over a period of a year, and Mr. Radin who has done it much longer, clearly think that one of the major problems is the failure to separate policymaking from daily implementation, that that creates management problems that reverberate up and down and horizontally.

Mr. HASTERT. I understand that. I had the dubious honor of rewriting a public utility act in the State that I came from. And that is one of the things that we tried to do was to separate that out.

The second thing is there have been a lot of rate increases. Is that a problem? Is that one of the problems that has brought this to a head or not?

Ms. LACY. Could I respond to that, sir?

I think that what brought the Southern States Energy Board and Governor Baliles to appoint the advisory committee to look at TVA were these operational problems that you are talking about. The nuclears were down. There were rate increases. The question is what was going to happen. Now, those are operational problems that, yes, existed and to some extent may have changed somewhat in their nature, but they still exist.

The problems that I think you are talking about or that you are asking about is it just those perhaps bad decisions, or is there really something more inherent in the structure that caused that decision.

Mr. HASTERT. Well, basically that is what I am driving at.

Ms. LACY. And the advisory committee felt, yes, there was. For example, when you looked at how TVA had reacted in their process to making those decisions, they kind of reorganized their structure, their nuclear power program versus their power program structure. They had had massive internal reorganizations in short periods of time. They could not seem to get a handle on how to operate internally.

Of course, the pay situation presented a major problem because of getting someone in there to work. When we were looking at the original shutdown of the nuclear units, it was very obvious the communication between the members of TVA, the board of directors, and the operational units who supposedly were supposed to know what the NRC was doing in there was a very serious problem. It just wasn't getting done. There were questions about whether or not the board knew how bad those units were.

Now, admittedly, people make businesses work. People make government work. Structure doesn't. But we felt that the problem with the structure really exacerbated the efficiency in decisions and the flow of information.

So, I hope I am being responsive in saying, yes, it was not just a bad decision or what now in retrospect is looked at as a bad decision on one or another nuclear plant. The structure and the process existing at TVA made it very difficult, if not impossible, to make those kinds of decisions in a more informed, efficient manner.

Mr. Hastert. And a fear that those types of decisions or that type of unworkable situation there would continue possibly.

Ms. Lacy. Yes.

Mr. Hastert. Let me suggest one other thing. And I understand why there probably needs to be some bifurcation on that board and some responsibility as far as policy in carrying out that policy in daily operations. But I think something that has come back, and constantly, is that that board not only was a policy board but was also a regulatory board. They were self-regulatory. And I can see why people from the valley don't necessarily want FERC making those decisions. But I think there is basically a problem too when you have to make policy and then you are your own judge of that policy. And certainly when you become the board, or you have your own board and you are you own regulatory board at the same time, your own judicial branch, you have to judge those decisions that you made before. There is no guarantee that those rates won't continue to go up or those bad judgments. Usually those judgments got to a regulatory board to say yes, you should build those plants or you shouldn't build those plants.

I think there might need to be another fix, and whether it is FERC or something else, at least some judiciary oversight—but some type of a regulatory oversight so there is a check and a balance.

Ms. Lacy. The advisory committee considered that. In fact, we looked into it very extensively whether it would be the FERC overview or judicial appeal or a regional type of overview. And ultimately perhaps that might be necessary.

However, we believe very strongly—we rejected those approaches for a number of reasons that are in the report. But primarily, one of our recommendations is the establishment of a full-blown what I call a rate hearing, the kind of hearings that come before us at the State Corporation Commission, before the Minnesota Public Service Commission, which would be conducted by a hearing examiner, an ALJ, which would provide for expert testimony, cross-examination, all of the trappings of any rate proceeding which does not really happen in the TVA area now. They have it open for comment. And they say here are the rates we propose. They will hold a couple of public hearings for testimony, and then I think their last rate increase was adopted within a little over a month of when it was first proposed.

Now, we believe on the advisory committee that establishing these very formalized proceedings like we have in other States and like people are used to where you then would have the hearing examiner issue his report which would then be open for further public comment, and then would go to the board for ultimate determination, modification and so forth would at least provide the public openness and input which many constituents of TVA feel just really isn't there right now, especially some of your larger industrials. We believe that this will give some accountability and credibility.

Perhaps in the long run, 10 or 15 years from now, someone might be sitting here before a similar panel saying, well, that was fine, but we really do need the FERC to review it or the judiciary as in other States.

We are not convinced at this point that that additional layer will add to the quality of the kinds of rate decisions that TVA can make. We do believe that a full and open, on-the-record hearing and so forth, as I have just described, will add to the quality and understanding of the rate decisions that would be made by that entity.

Mr. HASTERT. I appreciate your comments.

I might add that I look at an authority in just my limited experience with an authority. It also means you might as well change that A and call it "autonomy." I mean, it is hard to get a handle on those. And I think some of the problems that have come just from the hearing the last couple of days on the TVA are problems that are typical when you get somebody or an organization that is insulated and it is really hard to get a handle on accountability. And I think whatever legislation the gentlemen from Tennessee and Alabama pursue, it needs to have those handles of accountability.

Thank you, Mr. Chairman.

Mr. NOWAK. Thank you very much.

You elicited a question about this legislation or any legislation, if we move it, that it may have a tendency to pick up barnacles. And one of the things that you had mentioned is the Federal Financing Bank. And what was your comment, Mr. Radin?

Mr. RADIN. Well, there was a consideration that TVA be denied access to the Federal Financing Bank. And I felt that that would not be acceptable to deny TVA access to the Federal Financing Bank. All other Government organizations that have equivalent authority to TVA to go into the bond market do go through the Federal Financing Bank. In fact, I believe it was during the Nixon Administration that the Federal Financing Bank was created as a way of assuring that various Federal entities did not compete with each other in the financial markets.

Governor BALILES. Mr. Chairman, I might point out too in regard to that that I believe it was Fred Smith, the Federal Express chairman, pointed out his concern that three people, even two people out of three, could make the decision to borrow huge sums of money without the kind of broad experience that a part-time policy board could provide making the judgments about whether the construction is needed, whether additional financing is required to meet the obligations of the commission. And he felt that the policy board would provide that kind of judgment and guidance.

Ms. LACY. I would also like to add, Mr. Chairman, that one of the reasons the advisory committee rejected putting some limitations on access to the Federal Financing Bank really goes to the present financial situation of TVA. While there certainly would be some discipline of the market or whatever on some of these decisions if TVA were to go to the public market, the cost to the rate payers and the industries that use TVA electricity would without question go up. And we do not believe that this is the time in TVA's history or anybody else's history to make a decision that clearly would raise those costs.

And the advisory committee felt that, again, with this board of directors, with the change in structure, we would be giving the organization a window to have this public accountability that would not require further drastic action.

Mr. NOWAK. But that barnacle also cuts another way. I refer you to a statement in the report talking about the Federal Financing. We talk here about it being a barnacle. And yet, when it was used, the use was criticized, at least indirectly here, I think by the statement that was made. I am quoting. "The availability of this financing may have made it easier to carry plans further than would have been the case if repeated recourse to financial markets would have been necessary." So, you get the discipline of that market.

Ms. LACY. Yes.

Mr. NOWAK. On the other hand, you don't want to lose the rate. So, we have to try to balance those two into a better policy. And when we consider all of the ramifications of the legislation, I think there is a balance that we are going to have to try to strike because there are influences on both sides of this question.

Well, we are going to be in session in a few minutes.

And let me just state we have got here the point you just made about the rate structure. There are certainly in your report and the other reports that I have looked at strong indications that we need a broadening of the power that is controlled by this board. And you can do that institutionally in many, many ways. It doesn't mandate a 7 member board or an 11 member board or any other changes where you could be working with the same structure but mandate, as they have done in other years, different areas to provide that "extra review." A solely independent attorney general or inspector general with a staff could provide broader public information. A rate structure hearing process could be mandated. There are I think multiple answers to many of the questions.

And yet we are certainly going to look at the basic thrust of a new "complete structure." I think that will be a very major change, whereas we could, if you will, look at individual changes to accomplish much of your recommendations in your report.

But I want to congratulate the governor for taking the time and energy to put this together. What it really does is reduce the necessity that we would have had for very, very long and very, very extensive hearings to try to pull together information, and probably the hiring of our own "expert" to prepare a similar report. And it reduces the time that we will need and gives us the background—

and the other members especially—to review the available material. And we will certainly have a very strong starting point for our consideration. Certainly it gives us the overview we will need and gets us off with a mass of good and I think very credible information that we will have to internally digest before we go forward with anything.

And certainly we are going to have to be looking at the question of what "political" actions will come in after our committee takes that first step. And we will have to try to digest all of that mix in the next several months.

And I want to congratulate your great input into this and just advise you that we will, as we continue to review and digest this matter, keep this record open to fill in any gaps we have. And I hope that you will remain available for further questions and input into this process.

Mr. **Sundquist**. Mr. Chairman, could I ask one question please?

Mr. **Nowak**. Surely.

Mr. **Sundquist**. The point you make on FFB is a good one in terms of the amount of money TVA has spent. I think you have gotten to the core of a very critical question that we ought to spend some time on.

I think the problem lies less with FFB than it does with congressional oversight on the amount of borrowing that we allowed TVA to have.

Again, I appreciate, Mr. Chairman, your handling of this hearing.

Mr. **Nowak**. Thank you very much.

[The prepared statements of Governor Baliles, Mr. Radin, and the report submitted by Mr. Radin follow:]

Wednesday, December 9, 1987

The Statement of

THE HONORABLE GERALD L. BALILES
GOVERNOR OF VIRGINIA

before the
Senate Environment and Public Works
Subcommittee on Nuclear Regulation
United States Senate
and the
House Public Works and Transportation
Subcommittee on Water Resources
United States House of Representatives
Washington, D. C.

Good morning.

For more than 25 years, the Southern States Energy Board has sought to improve the South's economy through programs in energy, science and technology.

The Board's existence and its activity reflects a simple reality in the South: Our economy depends on adequate, reliable and affordable sources of energy.

Today, unfortunately, the South finds that one of its major suppliers of energy, an institution of great importance to the region, is threatened.

That institution is the Tennessee Valley Authority -- and its current predicament led the Southern States Energy Board to organize an "Advisory Board" to take a hard look.

As chairman of the Southern States Energy Board when the Advisory Board was commissioned, I am here today to review with you the results of that examination.

Let me put our effort in perspective.

Less than six decades ago, the South was a land of hardship, the object of three quarters of a century of exploitation and neglect, and the site of unconscionable wastes of resources -- both human and material.

The Tennessee Valley Authority was established to do something about it -- and it did, admirably.

The TVA replaced despair with hope, and resignation with productivity; it released the moral and human energy of a people.

John Gunther, who toured the nation in the 1940's, saw what the TVA had accomplished, and wrote, "Quite possibly the TVA idea is the greatest single American invention of this century."

In short, the TVA produced power and made the South a place of opportunity.

Understand this: The TVA is not just another utility.

The TVA provides service in or is adjacent to 11 of the 16 states belonging to the Southern States Energy Board.

It provides electricity at wholesale to 160 municipal and cooperative distributors who serve millions of customers throughout the South.

The TVA also provides power directly to a number of industrial customers and federal installations. Through high voltage inter-connections, TVA is linked directly to 13 southeastern utilities and indirectly to all of the companies in the Eastern Interconnected System.

So, as I say, the TVA is not just another utility -- a fact which makes its current condition all the more ominous.

Consider the nuclear program.

At first TVA's nuclear program was to consist of 17 units.

Eight units have been cancelled -- at a loss of $4 billion.

Five of TVA's nuclear units have been shut down.

Four remain under construction.

Altogether, TVA's nuclear investments amount to $15 billion and represent almost two-thirds of its total assets -- an investment that is producing no electricity and no revenue.

Of course, the Advisory Board could have looked only at TVA's nuclear program, which is the most visible manifestation of the TVA dilemma.

However, the Board decided to take a broad view of TVA, including its current operational, financial and management structure.

The Board felt that by addressing the issues involved in the nuclear program, without examining the underlying causes, the Board would not serve the long term interests of the TVA.

TVA operates under a different set of rules from other utilities. It doesn't deal with stockholders or rate hearings, and it has limits on what it can pay top management.

Further, the TVA is run by a three-member committee -- and it has been without one of its members for a year.

These are the kinds of things the Board considered in its approach to TVA's problems.

And, as it turned out, the Board's principal conclusion was that TVA's problems stem from a fundamental lack of a workable structure, management accountability, and adequate compensation.

But, before I go on to the Board's findings, let me briefly describe how it proceeded.

For the membership of the Advisory Board, the Southern States Energy Board brought together an impressive group of individuals, including: Fred Smith, chairman and CEO of Federal Express Corporation; Alex Radin, chairman of the Consumer Energy Council of America; Vice-Admiral Eugene P. Wilkinson, former president of the Institute of Nuclear Power Operations and first captain of the U.S.S. Nautilus; and Victor Gilinsky, former member of the Nuclear Regulatory Commission.

In addition, the Board included representatives of private and public power utilities, as well as academic specialists.

The Advisory Board of experts organized three subcommittees -- to address the issues of organization and management, power, and finance.

The subcommittees spent a considerable amount of time reviewing statistics, information and reports on all aspects of operations and management of the TVA.

Various drafts of their findings were circulated, differences of opinion were noted, and priorities emerged over the weeks of work that went into these reports.

The final report, however, speaks for the Southern States Energy Board, and represents a consensus of all Advisory Committee members.

And, I believe this final report offers positive guidelines for addressing the problems of the TVA.

The recommendations that emerged for consensus are these:

1. Establish a modern board structure --- replace the three-member full-time board with a nine-member part-time board, making clear the differences between policy-making and the responsibility of TVA's day-to-day operations.

2. Authorize a chief executive officer who is responsible for the implementation of board policy and who can assume all management responsibilities now held by the current three-member full-time board. Also create senior staff positions to be responsible for developing long-range plans for capital construction, rates and demand forecasts, and plans for adequate financial management.

3. Eliminate the statutory pay cap, because the current limit on salaries TVA is able to pay is the single most devastating handicap to the organization's ability to recruit and retain qualified staff.

4. Establish accountability. The Committee recommends the creation of formal rate review processes, standard and routine audit procedures and independent audit personnel, annual Board reviews of construction and operations plans, and an annual business plan.

Can TVA respond to billions of dollars of debt and a troubled nuclear program as it prepares for a 21st century market-place?

I believe the answer is yes, but only if the changes recommended in this report are used as the basis for changes now.

This report is the place to start.

Finally, let me say this: The economic challenges we face in the markets of the world tell us in no uncertain terms that we must work together.

Within our society, competing interests exist -- there is no denying that.

But, I will say to you, that if we are to successfully restore the TVA's productive capacity, then it must be the product of concerted cooperative effort between the public and private sectors of our society.

There is only one way that the changes we have recommended can be made and that is by Congressional action. The TVA act must be revisited and the basic structure of TVA altered to a modern corporate model.

There are those who would argue against reopening the TVA act, contending that now is not the time. I would urge you to reject that argument.

The TVA law has been revised dozens of times throughout its history, and we need to revise it again. We should give the TVA the means to bring about corrective action and to get its power program back on course.

In the final analysis, the TVA is not an isolated regional issue. It is a great national resource and, with expeditious action by the Congress, we can preserve it for the future.

Thank you.

# # #

Mr. Nowak. This meeting stands adjourned.

[Whereupon, at 12:09 p.m., the subcommittee adjourned.]

STATEMENT BY ALEX RADIN, PRESIDENT RADIN AND ASSOCIATES, INC., BEFORE WATER RESOURCES SUBCOMMITTEE HOUSE PUBLIC WORKS COMMITTEE ON H.R. 2025

December 9, 1987

My name is Alex Radin, and I am President of Radin and Associates, Inc., with offices at 1200 New Hampshire Avenue, N.W., Washington, D.C. 20036. I am a consultant specializing in policy and governmental relations for consumer owned electric utilities. I retired on June 30, 1986 from the American Public Power Association, where I had been employed for 38 years, 35 as Executive Director. The American Public Power Association represents almost 1800 municipal and other local publicly owned electric utilities throughout the United States. I was one of the organizers and for many years served as a vice president of the Consumer Federation of America, and I am chairman of the Consumer Energy Council of America.

I have had a long personal and professional interest in the Tennessee Valley Authority. My personal interest stems from the fact that I was born in Chattanooga, Tennessee, and while living there I witnessed the many benefits which TVA brought to the Tennessee Valley. My professional interest in TVA stems from the important role which TVA and its power distributors played in the American Public Power Association.

I would like to discuss two activities in which I have been involved since my retirement from APPA and which are relevant to your hearing today: (1) A study for the Tennessee Valley Public Power Association of the organizational structure of TVA, and (2) a report on TVA by the Southern States Energy Board's Advisory Committee on TVA, of which I was a member.

In June, 1986 I was asked by the Tennessee Valley Public Power Association, which represents the 160 municipal and rural electric cooperative distributors of TVA power, to undertake a comprehensive study of various proposals which had been made to restructure TVA. Special emphasis was given to Congressman Flippo's bill, H.R. 4559 (99th Congress), which was similar in most respects to H.R. 2025. My work on this project extended over a period of six months, during which time I studied the literature on this subject and consulted with a number of people, including Members of the Congress, Congressional staffs, present and former chairmen and members of the Board of TVA, officials of major large public power and investor owned utilities in the United States and Canada, former Senator and now White House Chief of Staff Howard Baker, a special study committee of the Tennessee Valley Public Power Association, and many other persons knowledgeable in the field of public administration and management of large enterprises. I also made a survey of nine of the largest local power systems in the United States and Canada, and I personally visited with the chairman of the board and the president of Ontario Hydro, a large public power organization in Canada which in many respects served as the model for the organization of TVA.

Although I consulted with a number of persons, my conclusions were my own, and did not necessarily represent the views of the Tennessee Valley Public Power Association. However, I am advised that the board and management of the Memphis, Tenn., Light, Gas and Water Division, the largest municipal distributor of TVA power, and the Nashville, Tenn., Electric Service, which distributes TVA power to Nashville and environs, have now endorsed my report.

After studying the present situation confronting TVA and reviewing its organizational structure in the light of the experience of other large public power systems and public enterprises such as the Postal Service, I concluded that there were fundamental problems in the organizational structure of TVA, and that changes were necessary.

In brief, I concluded that the present three-member, full-time Board of Directors should be converted to an 11-member, part-time Board appointed by the President; that the position of Chief Executive Officer of TVA should be created by statute, and that the present statutory pay cap on salaries of TVA should be lifted and that the TVA Board of Directors be allowed more flexibility in offering salaries to its highly specialized managerial personnel, particularly in its nuclear power program.

I recognize that structure does not necessarily assure either the success or failure of an organization. In the final analysis, policy and management decisions are made by people, and the quality of those decisions can be made within a variety of organizational arrangements. Nevertheless, the structure of an organization can have an important influence on the quality of decisionmaking and management of an enterprise. That structure, for a large, complex public agency such as TVA, should at the very least provide for a broadly-based, representative policy-making Board, and a strong Chief Executive Officer. The organization also should be able to offer salaries that will attract and retain needed personnel.

I believe that TVA's organizational structure is flawed in these respects:

1. It violates the fundamental principle of separation between policy-making and management. Regardless of the best efforts which might be made by the TVA Board of Directors to divorce itself from day-to-day management, the Board will inevitably be involved in management, because it is directed by the TVA Act to have such responsibility. A full-time Board of Directors further enhances the likelihood that it will not divorce itself from management.

2. The fact that the TVA Board of Directors has statutory responsibility for both policy-making and management diverts the attention of the Board from what should be its primary functions, such as establishing policies and assuring that policies are being carried out effectively.

3. The small size of the TVA Board limits the breadth of views that it considers. The nature of the policy decisions facing TVA demands that the widest possible range of views be represented among the Board of Directors, and full debate on the issues. It is possible that if TVA had a larger Board of Directors with more diverse interests and background, the Board might have been more cautious in inaugurating the extensive nuclear power program that was undertaken during the 1960s.

4. Full-time service on the Board of Directors limits the pool of qualified persons who might be available to serve as Directors. The long delay (almost two years) in filling the current vacancy on the Board of Directors attests to the difficulty of finding able Board members on a full-time basis. On the other hand, I am convinced that under today's conditions, distinguished citizens could be attracted to serve on a part-time Board of Directors. The same individuals would not be willing to make the sacrifice of moving and giving up other responsibilities in order to serve in a full-time capacity.

5. Although the TVA Board of Directors created the position of general manager and has taken steps to strengthen the authority of that office, the fact remains that the position of general manager is not called for in the TVA Act. In any event, the general manager's position must inevitably be subordinated by the fact that the Board itself has statutory responsibilities for management of the agency. An organization with a net plant investment of $21.5 billion, 30,000 employees and a complex mission affecting the lives of millions of people cries out for a strong, experienced executive whose powers are clearly delineated and supported by statutory authority.

6. And finally, the problem presented by TVA's pay cap must be addressed. By limiting the compensation which it can pay to its top-level staff to Level IV (presently, $77,500 a year) of the Executive Salary Schedule, the TVA Act has made it impossible for TVA in recent years to hire and retain the managers and specialized technical personnel who are needed, especially for its nuclear power program. TVA therefore has been forced to resort to the expedient of hiring contract employees (at salaries in some cases considerably in excess of the present federal pay cap) to take over key management and technical positions. TVA must regain control over its nuclear power program as quickly as possible, but it will not be able to do so unless something is done about the pay cap prescribed by the TVA Act.

In view of these problems, I recommended, among other things, the following:

1. Replacement of the present three-member, full-time Board of Directors by a Presidentially appointed 11-member, part-time Board. I accepted the provision in Congressman Flippo's bill that seven members of the Board be selected from States within the Tennessee Valley, but I suggested that the Board be enlarged from nine members, as provided by Congressman Flippo, to 11, so that four members could be chosen at

large from any State. My reasons for recommending enlargement of the Board were (a) to permit more diverse representation; (b) to allow more representation from outside the Valley, because of the fact that TVA is an agency of the federal government and its work has national implications, and (c) to permit larger representation on the important committee activities of the Board.

2. Members of the Board should be appointed for staggered five year terms, rather than three years, as called for in Congressman Flippo's bill, so that no one President (unless the President served two terms) could normally appoint all Directors of the agency.

3. A salary plan embodying the following elements should be adopted:

(a) The TVA Board of Directors should approve a compensation plan covering salaries, benefits and incentives for employees.

(b) The compensation plan should be based on an annual survey of the prevailing salaries, benefits and incentives for similar work in private industry and Federal, State and local governments.

(c) No salary could be established under a compensation plan until the survey upon which it is based, and the plan itself, were made available to Congress and the public for a period of 30 days.

(d) The chief executive officer of TVA should be directed to fix the salary and benefits of employees whose salary is not greater than the annual rate payable for positions at the current statutory limit, Level IV of the Executive Salary Schedule.

(e) Upon recommendation of the CEO, the Board of Directors should approve the salaries of those employees whose annual salaries would be in excess of Level IV.

4. I also made recommendations regarding the rate-setting authority and compensation of the Board of Directors, the standards for selection of the CEO, the appointment of an inspector general, and other facets regarding the governance and management of TVA.

With respect to the recommendation that the TVA Board of Directors be converted from a three-member, full-time Board to an 11-member, part-time Board, I should point out that the suggested form of organization is consistent with prevailing practices of both private and public corporations, and is also similar to the pattern followed by the municipal utilities and rural electric cooperatives which distribute TVA power. Of the nine large local public power agencies which I surveyed, the average size of the part-time board is 11 members.

In my trip to Toronto to discuss the operation of Ontario Hydro, I found that originally this organization was governed by a three-member Board, but in the 1970s, at the instigation of the government of the Province of Ontario, a task force was established to study the mission and organizational structure of Ontario Hydro. As a result of the task force's recommendations, a 13-member Board was formed in 1974 to govern Ontario Hydro. All members of this Board serve part-time with the exception of the Chairman and President.

As I pointed out in my report, the issue is not whether the TVA Board of Directors should consist of three, nine, 11 or 13 Directors. There is no magic number, and it would be a mistake if major attention were focused on this "numbers game." The real issues, in my opinion, are:

1. Whether the Board of Directors should be a broadly-based, representative, responsive policy-making body rather than a body which, at present, is of limited size and has responsibilities for policy-making and management;

2. Whether the day-to-day management of the agency should be delegated to a strong, experienced executive officer whose position is invested with powers mandated by law, and whose salary is not subject to the present federal pay ceiling, and

3. Whether TVA will have a compensation system that will permit it to attract and retain the highly

qualified technical and management personnel that are needed to manage and operate this agency.

The recommendations of the Southern States Energy Board's Advisory Committee on TVA on the structure of TVA follow in many respects the Flippo bill and the recommendations which I made in my report for TVPPA. Basically, the SSEB Committee recommended changing the TVA Board from full-time to part-time membership, and the creation of a statutory position of Chief Executive Officer. However, there were these differences between my recommendations for TVPPA and the SSEB report:

1. I recommended an 11-member Board whereas the SSEB Committee called for a nine-member Board.

2. I recommended that seven members of the Board be chosen from certain designated States within the TVA service area, as provided in the Flippo bill; the SSEB Committee suggested that five members be appointed from the Valley States, but did not suggest a formula for the allocation of these positions among the States.

3. I recommended that the terms of office of Board members be five years; the SSEB Committee suggested nine years, principally on the grounds that the longer terms would extend beyond the term of office of any President, and thus diminish the likelihood of political control over the agency.

4. I recommended that in the first year of operation of the new Board, the chairman should be compensated for not more than 100 days, and the other members should be compensated for not more than 80 days. Thereafter, the chairman should be compensated for 80 days and the members for 60 days. The SSEB Committee recommended that the chairman be compensated for no more than 60 days and the members for no more than 40 days.

The employee compensation plan recommended by the SSEB was identical to that which I recommended in my report to TVPPA.

The SSEB Advisory Committee also made the following recommendations which were intended to assure greater accountability for the agency:

> The Board of Directors should perform annual reviews on construction and operation plans, finance and rates. The review process should be formal, allowing for public comment, testimony, and cross examination. These reviews should be conducted by administrative law judges with final findings determined and published by the Board.
>
> The position of Chief Financial Officer should be put in place and vested with clear responsibility and authority.
>
> An Inspector General/Internal Auditor should report to the Audit Committee of the Board and Chief Executive Officer. Preparation of a business plan including a capital program and financing plan should be the responsibility of the Chief Executive Officer, subject to the review process and Board approval.

In connection with its recommendations on accountability, it is significant that the SSEB considered but rejected the option of having TVA's rates reviewed by the Federal Energy Regulatory Commission or an entity similar to the Postal Rate Commission. The SSEB also rejected the concept of denying TVA the authority to sell bonds to the Federal Financing Bank.

Although the recommendations which I made for TVPPA differed in some degree from those of the SSEB Committee, I joined with all other members of the Committee in unanimous endorsement of the Committee's overall report.

At the time I submitted my report to TVPPA in January, 1987, I did not recommend that the organization initiate a campaign immediately to bring about the legislative changes I had proposed. I felt that such a campaign would distract the TVA Board of Directors from the pressing problems it was facing in connection with its nuclear power program. Furthermore, given the time that would be required to pass and implement a new law, I did not feel that changes could take place in sufficient time to be helpful in resolving TVA's immediate problems.

However, almost eleven months have elapsed since my report was submitted and TVA now appears to be on the verge of resolving some of the most pressing problems of its nuclear program. Nevertheless, the long-term structural problems continue to exist; they will not go away when the first or additional nuclear plants go on the line. If these structural problems are not resolved, sooner or later they are likely to result in flawed and costly policy and management decisions, and TVA will not be able to attract and retain the top-ranking management personnel it requires. I therefore believe that the time has arrived for the Congress to begin seriously the process of considering the changes which Congressman Flippo, the Southern States Energy Board, and others have recommended, and I commend your subcommittee for initiating this process.

RADIN & ASSOCIATES, INC.
1200 NEW HAMPSHIRE AVENUE, N.W.
SUITE 235
WASHINGTON, D.C. 20036
(202) 785-7213

REPORT AND RECOMMENDATIONS ON A LEGISLATIVE PROPOSAL TO RESTRUCTURE THE TENNESSEE VALLEY AUTHORITY

By Alex Radin, President
Radin and Associates, Inc.

January 27, 1987

CONTENTS

INTRODUCTION.. 1

EXECUTIVE SUMMARY................................. 6

I. THE PROBLEM 16

II. CONGRESSMAN FLIPPO'S BILL, H.R. 4559......... 25

III. COMMENTS AND RECOMMENDATIONS ON H.R. 4559 ... 33

  1. Size of Board 38

  2. CEO should not be member of Board 40

  3. Length of term 41

  4. Staggering terms of office of Directors.............................. 42

  5. Compensation for Board members 43

  6. Clarifying responsibility of the Board 45

  7. Standards for selection of CEO 47

  8. Clarifying responsibilities of Board of Directors with respect to chief executive officer 48

  9. Responsibility for setting rates 48

  10. Compensation of employees............... 50

  11. Authority of CEO to appoint personnel .. 59

  12. Appointment of inspector general........ 59

IV. RECOMMENDATIONS.............................. 62

Exhibit A - H.R. 4559

Exhibit B - Survey of Administrative Organization of Large Public Power Systems

Exhibit C - Report on TVA Salary Cap by Carlos Smith of Strang, Fletcher, Carriger, Walker, Hodge & Smith, to Jerry Campbell, Executive Director, Tennessee Valley Public Power Association

Exhibit D - Present and proposed federal salary levels

INTRODUCTION

This report was commissioned in June, 1986 by the Board of Directors and a Special Study Committee of the Tennessee Valley Public Power Association, a regional organization consisting of 150 municipal electric utilities and 50 rural electric cooperatives which purchase all of their wholesale power from the Tennessee Valley Authority. Members of TVPPA serve almost 3 million electric customers, or a population of about 8 million, in seven states, and in 1985 their gross revenues totaled $3.82 billion. This study was initiated to permit TVPPA to take a "proactive" position and to respond to proposals to restructure TVA in light of problems which the agency has encountered in recent years, particularly with regard to the construction, management and operation of its nuclear power program, and the impact of nuclear power on wholesale power costs.

Members of TVPPA have compelling reasons to be concerned about TVA's future power costs, because wholesale power represents about 85 percent of the total expenses of the TVA distributors. Sharp increases in wholesale costs therefore must be passed on to the distributors' retail customers.

The focus of my assignment was H.R. 4559 (see Exhibit A), a bill introduced in the Ninety-ninth

Congress by Congressman Ronnie Flippo of Alabama, who was chairman of the TVA caucus in the Ninety-ninth Congress. Congressman Flippo's bill would change the size of the TVA Board of Directors and make other significant changes in the structure of the agency. Although no action was taken by the Ninety-ninth Congress on H.R. 4559, Congressman Flippo has indicated that he expects to introduce a similar bill in the One Hundredth Congress. Because of continuing problems encountered by TVA, this bill or other legislation affecting TVA will likely be given serious consideration in the future. Consequently, TVPPA asked me to analyze and make recommendations on the Flippo bill and any other similar legislation.

In carrying out this assignment, I have discussed TVA's current situation, the Flippo bill, and possible structural changes in the agency with a large number of persons who are directly concerned or are knowledgeable about TVA, including the current Chairman of the TVA Board of Directors, Charles Dean, and Director John Waters; former chairmen A.J. Wagner and S. David Freeman; former Director Richard Freeman; former U.S. Senator Howard Baker of Tennessee; members of the TVA staff; Congressman Flippo and other Members of Congress and/or their staffs; several leading newspaper publishers and editors in the Tennessee Valley; former

U.S. Comptroller General Elmer Staats, and the former head of TVA's Division of Power, Hugh Parris.

I have also personally visited with the chairmen and presidents of two large public power agencies -- the New York Power Authority and Ontario Hydro -- and with the chairman and chief executive officer of Duke Power Co., a large neighboring investor owned company which operates a substantial nuclear power program. In addition I have made a survey (see Exhibit B) of nine large local public power systems to obtain information about their organizational structure, and I have spoken with the managers of several of these utilities about their operating practices. Other valuable sources of information were Milan Nastich, who recently retired as President of Ontario Hydro, and Charles Luce, former Administrator of Bonneville Power Administration, Undersecretary of the Department of the Interior, and Chairman and Chief Executive Officer of Consolidated Edison Co. of New York.

In the process of working on this study, I have met on several occasions with the Special Study Committee of TVPPA to obtain their views, and I have consulted with members of the staffs of TVPPA, the American Public Power Association and the National Rural Electric Cooperative Association, as well as representatives of individual member utilities of these organizations. I have also, of course, drawn upon my experience of 35 years as Executive Director of the American Public Power Association, a position from which I retired on June 30, 1986.

I am indebted to James Grahl, retired General Manager of Basin Electric Power Cooperative, Bismarck, N.D., for his research and consultation on some aspects of this report, particularly his analyses of the U.S. Postal Service and the recent action of the Congress in establishing a Metropolitan Washington Airports Authority. Finally, the TVA Washington office has been an invaluable source of factual information.

Although I have benefited a great deal from the advice and information I received from the many individuals noted above, I take responsibility for the conclusions reached; they may or may not coincide with those of the various persons whom I have consulted, including the Special Study Committee of TVPPA.

I want to express appreciation to the Tennessee Valley Public Power Association for giving me the opportunity to make this study and report. As a native of Tennessee who lived in the Tennessee Valley for the first 20 years of my life, I saw at first hand the tremendous benefits which TVA brought to the people of that region. I therefore welcomed the opportunity to attempt to make a contribution to resolving some of the problems facing this world-renowned agency which has served as a model of natural resources development not only in the United States, but in many other Nations.

EXECUTIVE SUMMARY

The problems of the Tennessee Valley Authority are immediate and serious, and they center primarily around the agency's nuclear power program.

Although TVA's hydroelectric and fossil-fired generating stations continue to operate efficiently, and TVA's electric rates remain among the lowest in the nation, the nuclear power program casts a dark cloud over the agency. The five nuclear power plants which had been in operation have now been shut down for almost a year-and-a-half. While these plants are out of service, the capital costs and expense of replacement power have been estimated to be as much as $5 million a day. At the present time, the first of these units is not expected to be brought back on line until the spring of 1987, at the earliest.

Although TVA has given estimates as to the ultimate impact on electric rates of completing its nuclear power units, the experience of TVA and other utilities in encountering unexpected expenditures in building nuclear power plants has caused concern among many as to the long-range impact of this program on the region's electric rates. Already, electric rates to industrial customers are higher among some TVA power distributors than comparable rates of neighboring power companies.

An integral part of the problem centering around TVA's nuclear program is the ceiling on salaries which can be paid federal government personnel. Because of this ceiling, TVA has had serious difficulty in recruiting and retaining necessary management and technical personnel to construct and manage its nuclear power units. Thus, TVA has had to resort to contracting out major responsibilities for its nuclear power program -- a process contrary to TVA's longstanding policies, and contrary to the generally prevailing practices of utilities.

One approach to addressing TVA's problems has been a call for restructuring the agency, which since its inception more than 50 years ago has been governed by a three-member, full-time Board of Directors. Perhaps the leading advocate of this position is Congressman Ronnie Flippo of Alabama, former chairman of the TVA caucus in the House of Representatives, who introduced H.R. 4559 on April 10, 1986. Congressman Flippo's proposal would replace the present three-member, full-time Board of Directors by a nine-member Board. Eight of the nine members would be appointed by the President of the United States, and would serve part-time; the ninth would be a full-time chief executive officer selected by the Board and invested with strong powers to manage the agency.

Although opinions differ as to whether TVA's problems are a result of its unique structure, the Tennessee Valley Public Power Association, representing 110 municipalities and 50 rural electric cooperatives which purchase all of their wholesale power from TVA, felt that the issues raised by Congressman Flippo's bill were of sufficient seriousness to warrant an in-depth study of H.R. 4559. The organization commissioned me to make such a study on June 23, 1986.

I have concluded that fundamental changes in the structure of TVA would be desirable, and I believe Congressman Flippo should be complimented for taking the time and effort to address this issue in a thoughtful manner.

However, I do not believe that a restructuring of TVA, as proposed by Congressman Flippo, would resolve the more immediate problems facing TVA. Furthermore, the process of Congressional consideration of major legislation is time-consuming, and it is unlikely that any bill could be adopted and its provisions implemented within a time frame that would be helpful to TVA in the immediate future.

The climate in Congress currently also does not seem to favor a sweeping legislative approach to resolving TVA's problems. Because of the critical situation facing TVA's nuclear power program and the adverse publicity which has surrounded that program in recent years, the prevailing sentiment among the Tennessee Valley Congressional delegation at the present time appears to oppose opening up the TVA Act for a major overhaul as contemplated in H.R. 4559.

Although I believe that TVA's structure should be modified in the future, along the general lines of Congressman Flippo's bill, for the reasons noted I do not recommend that TVPPA initiate this effort at this time. Such an activity could be a distraction from TVA's efforts to resolve the more immediate problems facing the agency.

Many of the current problems confronting TVA are interrelated. I would identify them as (1) bringing the nuclear units back on line as quickly and efficiently as possible, consistent with safety and economic considerations; (2) raising the ceiling on pay for a relatively few top-level managers and technical personnel; (3) returning management responsibilities for the nuclear program to the TVA staff, and (4) taking whatever steps are necessary to keep costs and rates as low as possible.

These problems demand immediate attention, and I believe that many if not most can be resolved administratively without awaiting a longer-range solution contemplated by H.R. 4559. The only one of these problems which may not be susceptible of solution without legislation is the pay ceiling. Unfortunately, the "pay cap" impacts on some of the other problems facing TVA. The compensation ceiling is preventing TVA from hiring necessary personnel for its nuclear program, and has forced the agency to resort to a practice of contracting out major management responsibilities. The pay ceiling thus has placed TVA in the position of having to pay contractors considerably more than would be required if the ceiling were lifted and TVA could hire its own personnel for jobs presently being held by contractors. The pay ceiling is not only more costly to TVA; it also is not in the best long-range interests of the agency from a management standpoint.

Despite the fact that Congressional sentiment at the present time does not seem to favor opening up the TVA Act in a manner contemplated by H.R. 4559, events such as actions by the Southern States Energy Board or further delays and cost over-runs in the nuclear power program could result in a change in Congressional sentiment in the near future. If the TVA act is opened by the Congress and serious consideration is given to the Flippo bill or similar legislation, I recommend support of this bill, but with at least 12 amendments. These are described in detail, along with a rationale for each amendment, in Chapter III.

Regardless of whether a bill such as H.R. 4559 is considered in this or a future Congress, sooner or later the manner of governance of TVA must be addressed. I cannot say with absolute certainty that a different organizational structure would have prevented the type of problems encountered by TVA in recent years, but in my view TVA's organizational structure has fundamental weaknesses which have the potential of contributing to flawed policy positions and/or ineffectual management.

The issues raised by the Flippo bill are not whether the TVA Board of Directors should consist of three, nine, 11 or 13 Directors. There is no magic number, and it would be a mistake if major attention were focused on this "numbers game."

The real issues are (1) whether the Board of Directors should be a broadly-based, representative, responsive policy-making body rather than a body which, at present, is of limited size and has responsibilities for both policy-making and management, and (2) whether the day-to-day management of the agency should be delegated to a strong, experienced executive officer whose position is invested with powers mandated by law, and whose salary is not subject to the present federal pay ceiling.

The successful operation of an agency which has an investment of more than $21.5 billion and employs

30,000 people cries out for a strong, experienced chief executive who has the authority to carry out policies carefully considered by a sufficiently large Board of Directors consisting of distinguished citizens who themselves have a breadth of experience and background.

I believe that H.R. 4559 moves significantly in these directions. It would establish a larger, part-time Board which would have clear responsibility for establishing policies. It would create a new position of chief executive officer who would be a professional administrator, who would manage the day-to-day operations of the agency, and whose salary would not be subject to the present federal pay ceiling.

The change of the TVA Board from full-time to part-time service is a significant departure from past practice, but I am convinced, on the basis of my studies and interviews, that a part-time Board could attract highly qualified, distinguished citizens who would serve TVA on a limited basis, as a public service, but who would not be willing to make the sacrifice of moving and serving full-time as Board members.

I believe, therefore, that the Flippo bill moves in the right direction, but that it can be improved, and I have suggested 12 amendments. Most notable are these:

1. The Board of Directors should be further expanded to at least 11 members and possibly as many as

13. The larger size is needed for these reasons: (a) to give the Board greater national representation; (b) to make the Board large enough so that there would be a sufficient number to serve on Board committee, and (c) to provide guidance on a wide spectrum of issues.

2. In order more clearly to delineate policy-making and management responsibilities, the chief executive officer should not be a member of the Board of Directors, as proposed in H.R. 4559.

3. Instead of three-year terms, as proposed by Congressman Flippo, the terms of office of Board members should be lengthened to five years, so that no one President could normally appoint all Board members within a single term of office.

4. Responsibilities of the Board of Directors and the chief executive officer should be more carefully described, and the Board should be prohibited from appointing one of its members to the position of CEO in less than two years after the term of office of the director has expired.

5. There should not be a rate committee of the Board of Directors, as prescribed by the Flippo bill, but instead the entire Board should be involved in the rate-setting process, and should make the ultimate determination of rates. The philosophy of the agency comes together in the design of rates, and therefore the

entire Board must be involved in this process from the beginning.

6. A major deficiency of the Flippo bill is that it does not deal adquately with the federal pay cap problem, except for the CEO. I have proposed a process which would make TVA's pay more comparable with prevailing wages, especially for a small number of managers and technical personnel, but would still subject the pay schedule to Congressional review. I have also proposed that the entire Board of Directors be required to approve salaries of those positions which are above the present statutory ceiling.

7. The position of inspector general, which has been created by the Board of Directors on its own initiative, should be given statutory authorization, but this should be done under the TVA Act rather than the Inspector General Act of 1978, as proposed by Congressman Flippo. Also, the inspector general should be appointed by and report to the chief executive officer rather than the Board of Directors.

One of the most pressing problems facing TVA at this time is the need to lift substantially or remove the present ceiling on the compensation which TVA can pay to a relatively small number of managers and technical personnel. TVA has indicated that the salaries of 30 to 50 persons (out of a total workforce of about 30,000) would have to be above the present salary cap in order to attract and retain qualified personnel for certain key jobs. TVA has estimated that the cost of these increases, above the present pay cap, would be between $500,000 and $1 million a year -- a relatively small sum when viewed in perspective of what is at stake, and in relationship to TVA's total annual budget of $6.9 billion. I therefore recommend that TVPPA support any discrete, limited legislative efforts which might be made to address this problem.

TVA has an enviable record of service to the people of the Tennessee Valley, and it has been a world-wide model for natural resource development. However, TVA cannot survive on the basis of its historic achievements. It must continue to earn its reputation. In the past, TVA has not feared to be in the forefront of change, and to respond constructively to new conditions. If TVA is to continue to be a model for a government corporation that can operate with flexibility, dispatch, efficiency and imagination, it must sooner or later undergo fundamental changes which will separate its policy-making from management responsibilities, create by statute the position of a strong chief executive officer, and provide compensation that can attract and retain "the best and brightest."

I. THE PROBLEM

TVA operates the largest electric power system in the United States. It has an installed capacity of 32,000 megawatts, and assets of the power program in 1985 totaled about $21.5 billion. It has about 30,000 employees. If TVA were a private corporation, it would rank, on the basis of assets, among the top 15 companies in the Fortune 500.

For many years TVA was regarded as a model for constructing hydroelectric and coal-fired generating stations. Its thermal generating stations, based on heat rate, have consistently been rated among the most efficient in the Nation, and they continue to hold this distinction today.

TVA also has been an innovator in designing rate structures, developing new technologies, and encouraging efficient use of electricity. Its electric rates continue to be among the lowest in the Nation.

However, in the last decade TVA's power system began to experience increasing problems, stemming primarily from its nuclear power program. Anticipating continued growth in demand for electricity, and concerned about rising prices and reliance primarily upon coal as a source of energy for new generating capacity, TVA in the 1960s embarked upon an ambitious program to build 17 nuclear power units, with a projected capacity of about 23,000 megawatts. With the benefit of hindsight, it is apparent that this objective was overly ambitious and did not take into account the difficulties of building nuclear power stations. Like most other utilities, TVA also did not foresee the slowdown in load growth which occurred in the 1970s because of rapidly rising energy prices and a new emphasis on conservation.

A major factor contributing to TVA's predicament was an unanticipated decline in sales to the federal government, primarily for defense related installations. In 1961, TVA was supplying about 45 percent of its power -- or 28.5 billion kilowatt-hours annually -- to federal defense establishment, and there were prospects that these agencies would increase their demands within the next few years. Subsequently, however, and particularly since 1977, the federal government's demand for electricity continued to decline, and by 1985 only 5.5 billion kilowatt-hours, or about 5 percent of TVA's total sales, were to the federal government.

As a result of these developments as well as the sharply rising costs of building nuclear power stations, TVA subsequently pared down its nuclear program to a total of nine units. By 1985 five of these units were operational, and four were under construction.

In 1985, TVA began to experience a variety of problems with its operating nuclear stations, and decided to shut down all five units. As of January 1987, these stations had not been operational for more than a year, and it was anticipated that the first would not be back in service before the spring of 1987, at the earliest. Meanwhile, the cost to TVA during the time when these units were out of service, including the costs of capital, labor and replacement power, was estimated to total as much as $5 million a day.

Because of the problems of managing the construction and operation of its nuclear power facilities, and because the ceiling on federal salaries prevented TVA from obtaining necessary nuclear technical and management personnel, TVA in January, 1986 entered into a contract with the consulting engineering firm of Stone & Webster to obtain the services of a "nuclear czar" and other consultants. Through Stone & Webster, TVA hired retired Navy Admiral Steven White to take command of its nuclear program, at a salary of $355,200 a year. As of late 1986, about 2,000 persons were working for TVA through contractual arrangements. This was a radical departure from TVA's long-established practice of doing its construction and maintenance work by its own personnel, rather than through contractors.

In October, 1986, the program of getting the nuclear power program was dealt a serious blow when the U.S. Office of Government Ethics advised TVA that the contractual arrangements with Admiral White and some other contractors posed a conflict of interest problem. Consequently, Admiral White promptly took leave of absence, but subsequent changes in his contract made it possible for him to return to duty with TVA in January, 1987. The OGE action also precipitated a further reorganization of TVA's nuclear power program, with resultant changes in the assignments of both TVA personnel and contractors. The action of the OGE, the subsequent changes in the role of the contractors, and the extended absence of Admiral White were expected to result in further delays in start-up of the nuclear units.

This sequence of events has highlighted at least four problems:

1. TVA's organizational structure. Some have concluded that the difficulties which TVA has experienced in recent years are a reflection of structural problems in the organization of the agency. That is the conclusion drawn by Congressman Flippo. Pointing to the fact that the TVA Act provides for a full-time Presidentially-appointed three-member Board of Directors to establish policy as well as manage the

affairs of the agency, Congressman Flippo has stated that TVA has an "archaic, irrational management structure -- established without extended analysis more than half a century ago." As a result, he claims that this management-governance structure has two serious flaws:

> "°It mixes apples and oranges -- putting into the hands of one body the jobs of policy and management. When the board also manages, there is no one to monitor management."
>
> "°Management by committee, with no person responsible and no one accountable."

Congressman Flippo also argued that TVA may have "more autonomy and less accountability to outside forces, than any Federal agency of its size and scope," and that the electric ratepayers have no voice in the policy-making of the agency.

Congressman Flippo introduced H.R. 4559 in response to the problems he cited.

2. Federal pay cap. TVA's difficulty in obtaining highly qualified management and technical personnel for its nuclear power program has called attention to the handicaps imposed on the agency by the Federal pay cap. Surveys indicate that salaries of

TVA's top personnel are substantially below the prevailing levels among other utilities of a comparable size, and with similar (and even smaller) nuclear power programs. Furthermore, the fact that TVA has had to hire consultants with salaries considerably above those of its own personnel indicate that its present salary levels are inadequate.

A recent survey made by the General Accounting Office[1] of 12 investor owned companies of somewhat comparable size, and with similar nuclear power programs, indicated that the salaries of the top executives ranged from $152,000 to $650,211 a year, or an average of $383,052. These salaries did not include non-cash compensation, which could be considerable for some executives. By contrast, the chairman of the TVA Board of Directors, who manages the largest electric utility in the United States, with net assets totaling some $21.5 billion, currently is limited by federal law to a salary of $75,800.

The GAO study also showed that the salaries of managers of nuclear power operations of the selected list of companies ranged from $87,000 to $225,301, or an average of $138,040. This compares with the top salary of $74,500 which TVA can pay its nuclear manager.

---

[1] See letter of October 24, 1986 from J. Dexter Peach, Assistant Comptroller General, United States General Accounting Office, to Representative Patricia Schroeder, Chairwoman, Subcommittee on Civil Service, Committee on Post Office and Civil Service, U.S. House of Representatives.

Since 1980 TVA has tried unsuccessfully on a number of occasions to obtain relief from Congress from this situation, but without success.

3. Returning management responsibilities to TVA staff. Contrary to its long-established policy of managing, constructing and operating its programs through its own staff -- a policy to which many attribute the early successes of that agency -- TVA has now turned over the management and a large share of other responsibilities for its nuclear power program to private contractors. Given the problems it was facing at the time, and given the ceiling on salaries of managerial and technical personnel, TVA may have had no alternative except to turn to private contractors to take over a major share of responsibility for its nuclear power program. However, my studies and observations of other utilities convince me that over the long run TVA should not continue to rely on contractors to manage or operate its nuclear power program. No other major utility of which I am aware has turned over such sweeping responsibilities to contractors.

In fact, TVA apparently intends to use contractors only as an interim measure. TVA's contract with Stone & Webster provides that the consulting company will train personnel to take over from the contractors within a two-year period. However, this objective cannot be accomplished if nothing is done about the TVA pay cap. It will be difficult to attract promising managers or technical personnel if their potential compensation is limited by comparison with alternative employers. Those who do accept employment with TVA and are trained to take over from contractors will not long remain with the agency if they can be enticed away by higher compensation from other utilities.

4. Controlling rising costs and rates. Problems with the nuclear power program and their impact on electric rates have raised serious questions about the future viability of TVA's power program.

Although TVA has experienced rate increases in recent years, its residential rates consistently have been lower than the national average and the rates of neighboring power companies. TVA has been able to maintain this advantage in part because it has allocated its lower-cost hydroelectric power to residential consumers. However, industrial rates of some of the distributors of TVA power are now higher than those of some investor owned companies operating on the periphery of the TVA service area.

Although rough estimates have been made, it is not known at this time precisely what effect the completion of TVA's nuclear power program will have upon future TVA rates. If TVA rates should become substantially higher than those of neighboring power companies, at least one of two consequences is likely: (a) Offers will be made by neighboring power companies to buy the TVA power system at a bargain price, or (b) some current distributors of TVA power may look to other power suppliers at the expiration of their current wholesale power contracts with TVA. Either result would spell the end of the TVA power system as it has existed for more than 50 years.

It is within the context of the principal issues defined above that I have examined the Flippo bill and other possible remedies to TVA's current difficulties.

II. CONGRESSMAN FLIPPO'S BILL, H.R. 4559

As early as 1983, Congressman Flippo publicly indicated that he was considering legislation which would call for the restructuring of TVA, and on April 10, 1986 he introduced H.R. 4559, which was referred jointly to the Committees on Public Works and Transportation and Government Operations.

The most significant aspects of H.R. 4559 are its provisions calling for replacement of the present three-member, full-time Board of Directors by a nine-member Board of Directors, eight of whom would be appointed by the President of the United States, and would serve part-time. The ninth Board member would be the chief executive officer of the agency, who would be appointed by the Board of Directors, and would be a full-time employee.

A background paper issued by Congressman Flippo explains the history of the full-time Board concept as follows:

> "Compared to other elements of the TVA Act and its predecessors, the composition and duties of the board and the functions of governance of the TVA received scant attention of the Congress of 1933. The initial TVA or Muscle Shoals legislation originated in the War Department in 1919 and called for a board of from three to 11 members appointed by the Secretary of War. The first Norris bill in 1922 called for three full-time board members appointed by the President for no fixed term.

> "In 1928, the first TVA bill approved by the Congress established a five-member, part-time board and a chief executive officer. The second TVA bill to pass both Houses (in 1931) provided three part-time board members and general control and management of the agency by a general manager. The first bills introduced in 1933 still called for a strong general manager but differed on the number of days board members could serve per year. After President Roosevelt's April 10, 1933, message on TVA, new bills were introduced calling for three full-time board members. Ultimately, the idea of a general manager was dropped from the enacted version.
>
> "But for most of the period when Congress was actively considering TVA or Muscle Shoals legislation, emphasis was on a part-time board, and a chief executive officer chosen by the board to manage the agency.
>
> "From the perspective of the first board members who had a hand in drafting the final version of the TVA Act, the nature of the tasks facing the start up of the agency and the political urgency for rapid results in those desperate early New Deal days may have seemed to favor the kind of three-man full-time board which emerged from the conference committee. Yet the most noted early TVA scholars expressed grave doubts about the wisdom of this structure. Even the first board changed its views on the matter of a chief executive officer and established a general manager in 1936."

Although a number of recent appointees have been residents of the Tennessee Valley, the present TVA Act does not mandate that members of the Board of Directors come from any state or region. H.R. 4559, however, requires that of the eight members of the Board to be appointed by the President, one may come from any State, but seven must come from states within the Tennessee Valley -- three from Tennessee, one each from Alabama, Kentucky and Mississippi, and one from either Georgia, North Carolina or Virginia. The chief executive officer, who shall be an ex officio voting member of the Board of Directors (except for matters relating to his appointment and compensation) may come from any State.

In appointing members who are required by the TVA Act to reside in the TVA service area, the President is directed to consider recommendations from governors of the states that are in the service area, individual citizens, and business, industrial, labor, electric power distribution, environmental, civic and service organizations.

Board members would be appointed for three-year terms, and no Board member could serve more than three such terms. The bill also provides for staggered terms for initial appointees.

Board members would be paid a stipend of $10,000 per year, plus compensation for days actually engaged in performance of duties as members of the Board. However, the chairperson could not be compensated for more than 80 days of work per year, and the other members of the

Board, except the chief executive officer, could not be paid for more than 60 days' work.

The Board would be authorized to appoint any number of committees, but is specifically directed to appoint two committees: an electric rate review committee and an audit committee. The electric rate review committee is directed to hold hearings on proposals for changes in TVA's electric power rates, and to make recommendations to the full Board "for such rate adjustments as are necessary to insure that rates are as low as feasible." The audit committee would recommend to the Board an external auditor; receive and review reports from the external auditor, and "make such recommendations to the Board as are necessary."

The Board of Directors are directed to conduct public hearings on issues that would have a substantial effect on the electric rate payers in the region, or "the economic, environmental, social or physical wellbeing of the people of the region."

H.R. 4559 directs the Board to appoint as chief executive officer a person "who has management experience in large complex organizations," and to "delegate to such officer all duties to manage the Corporation not specifically reserved to the Board."

The bill authorizes the Board of Directors to provide a system of compensation for the chief executive officer which includes a basic rate of pay, plus "payment of incentives for personal and corporate performance . . . ." The bill establishes no ceiling on the amount that can be paid the chief executive officer.

With respect to compensation for employees other than the chief executive officer, the bill provides -- Section 3(3), page 10, line 6--that the CEO shall "establish, subject to board approval, the rate of basic pay for such managers, officers, employees, attorneys, and agents, not to exceed the annual rate payable for positions at level V of the Executive Schedules in effect at the end of such fiscal year." (emphasis supplied)

On the face of it, it would appear that the provision cited above could result in a reduction in pay for some employees, inasmuch as under current law TVA's ceiling for compensation is level IV. (As of January 5, 1987, compensation for level IV was $74,500; for level V, $70,800.)

However, Section 2(h) of H.R. 4559 (page 8, line 20) provides that, with regard to compensation of employees other than the CEO, and subject to the provisions of Section 3 cited above, the Board may

> "(1) establish an annual fund of some fixed amount from which the Board may grant awards to

employees in recognition of unusually meritorious acts of benefit to the Corporation; and

"(2) authorize supplements on an annual basis to the basic pay of individual employees when recruitment or retention problems are caused by substantially higher pay for comparable levels of work in the Federal Government or for which no similar positions are found in the Federal Government."

With the exception of the chief executive officer, the aggregate amount paid to an employee as basic pay and awards under paragraphs (1) and (2) above "shall not exceed the annual rate payable for positions at Level I of the Executive Schedule in effect at the end of such fiscal year." As of January 5, 1987, the ceiling on salaries for positions at Level I was $88,800. Under H.R. 4559, this amount, at the present time, would appear to constitute the pay ceiling for those TVA employees whose job conditions met the qualifications of Section 2(h) cited above. (Under present law, Level IV, with a current salary of $74,500, constitutes the ceiling for compensation of TVA employees.)[2]

---

[2] Federal salary schedules, in the upper ranges, were in an uncertain state as this report was being prepared. On January 5, 1987, salaries were adjusted upward by 3

[Footnote continued on next page]

The juxtaposition of Section 2(h) and Section 3(3) raises a question in my mind as to whether some employees presently being paid at level IV would be subjected to the lower pay called for by level V. I have discussed this point with the administrative assistant to Congressman Flippo, and he has authorized me to state that the Congressman does not intend for any employee to have a reduction in pay as a result of passage of his bill. Presumably this issue will be clarified during hearings on the bill, or by an amendment to it.

Although TVA in 1986 appointed an inspector general on its own volition, H.R. 4559 mandates

---

[Footnote continued from previous page] percent. However, on December 15, 1986, the Commission on Executive, Legislative and Judicial Salaries (the so-called Quadrennial Commission) issued a report recommending substantial increases in salaries for levels I through V, which apply to cabinet officers, heads of agencies, members of boards and commissions, and other top-level federal government officials. President Reagan on January 5, 1987 submitted to Congress his recommendations for salary increases, based on the report of the Quadrennial Commission. Within 30 days--that is, by February 5, the President's recommendations will go into effect unless both Houses of Congress pass resolutions prior to that time disapproving the President's recommendations, and the President approves such resolutions. At the time this report was written, the Congress had not acted upon the President's recommendations. For the purposes of clarification, I have prepared Exhibit D, which indicates the ceilings for levels I through V at (a) the present time, (b) as proposed by the Quadrennial Commission, and (c) as recommended to the Congress by President Reagan.

establishment of this position. The inspector general is given authority to conduct audits and investigations of the programs and operations of the agency.

H.R. 4559 directs the Board of Directors to appoint the inspector general. It also provides that the inspector general "shall report to and be under the general supervision of the board of directors of the corporation and shall not report to, or be subject to supervision by, any other officer of the corporation. Neither the board of directors nor the officers of the corporation shall prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation, or from issuing any subpoena during the course of any audit or investigation."

If the Board of Directors should remove the inspector general, that action would have to be reported to the Congress.

III. COMMENTS AND RECOMMENDATIONS ON H.R. 4559

Whether or not the Tennessee Valley Public Power Association should support H.R. 4559 or some variation of this legislation involves not only an objective analysis of the bill, but also political considerations and a weighing of priorities for addressing problems facing TVA. Ever since TVA was created in 1933 -- and even before that time, when the concept was under consideration by the Congress -- TVA has been the subject of considerable controversy. Opening up the TVA Act for amendment at a time when the agency is already under attack would expose TVA to risks of changing or taking away some of the important provisions which have been established in TVA legislation in the past.

In Chapter IV of this report I will weigh an objective consideration of the proposed legislation with political and other factors, but in this section I will analyze the substance of the legislation and suggest amendments.

At the outset, I believe it is important to point out that no organizational structure can guarantee the success of an enterprise. Conversely, the right people can make almost any structure work. Nevertheless, structure does have a great deal to do with the success of an enterprise. At the very least it should be designed to make it likely that the organization will succeed.

My studies and observations have led me to conclude that the TVA structure is outmoded, and does not provide for a clear distinction between the responsibilities of policy-making and management. Furthermore, the TVA Act, which clearly places the responsibility for management in the hands of the three-member Board of Directors, does not provide for strong, centralized executive direction. Even with the best of intentions of divorcing itself from management, a full-time Board of Directors which is given statutory responsibilities for management is not likely to refrain from intruding upon day-to-day affairs of the organization.

The pay ceiling contained in the TVA Act also poses a serious problem. If this problem is not addressed, TVA will be inhibited from obtaining necessary qualified personnel and will not be able effectively to regain control over its nuclear power program.

The fundamental concept of H.R. 4559 -- to transform the TVA Board of Directors from a full-time to a part-time Board, and to install a strong, professional chief executive officer -- is sound, and in accord with current practices of public and private organizations.

For example, the municipal utilities and rural electric cooperatives which are distributors of TVA power are organized in this manner, as are the large power supply organizations covered by the survey summarized in Appendix B.

It is also interesting to note that Ontario Hydro, which was established in 1906, and which in many respects served as a model for TVA, was reorganized in 1973 after a special task force was formed by the Provincial Government of Ontario to study the "function, structure, operation, financing and objectives" of Ontario Hydro. After an exhaustive study covering a period of more than a year, the task force, among other things, recommended changing Ontario Hydro's governance from a three-member Commission to a part-time Board of Directors similar in many respects to that called for by H.R. 4559.

Separating policy-making from management responsibilities makes each group more accountable, and frees management to carry out policies adopted by the Board of Directors.

A larger, part-time Board consisting of persons with more diverse experience and background also can provide more checks and balances in the Board's decisionmaking processes on highly complex, critical issues such as the inauguration of major construction projects, or the initiation of potentially controversial new programs.

The fact that a significant degree of Congressional oversight over TVA's power program was removed when the Congress granted TVA authority to issue revenue bonds also would argue for the desirability of having a somewhat larger, more representative Board of Directors to establish policies for the agency.

Other advantages of a policy board divorced from management responsibilities are that the Board can give greater attention to long-range planning, establishing the goals of the organization, and assuring that management carries out the agency's objectives.

One cannot say that a different organizational structure alone would have obviated the types of problems encountered by TVA in recent years. Other utilities with a part-time Board of Directors and a strong CEO also have encountered difficulties with their nuclear power programs. However, there is the likelihood that an organizational structure which separated policy-making from management, and which provided for a larger, broader-based Board of Directors, might well have put the brakes on the ambitious nuclear power program approved by the TVA Board of Directors in the 1960s.

Among the more important questions about changing from a full-time to a part-time Board are (a) whether members of a part-time Board can devote sufficient time to deal with the complex issues confronting an agency such as TVA, and (b) whether a part-time Board can attract citizens of stature.

Based on my studies and observations of other organizations, public and private, I would answer both questions in the affirmative. Interviews with officers of other large organizations indicate that a part-time Board of Directors composed of distinguished citizens can provide thoughtful policy guidance for a large organization such as TVA. Experience of other organizations also has demonstrated that a part-time Board of Directors can attract prominent citizens who have diverse backgrounds useful in formulating policies.

Some have criticized the concept of a part-time Board on the ground that appointments would be "political pay-offs." However, I do not believe that this potential is greater under a part-time than under a full-time Board. In any event, confirmation of appointees by the U.S. Senate should offer some insurance against the selection of incompetent persons.

Notwithstanding my support for the part-time Board concept, I believe changes are needed in provisions of H.R. 4559 with regard to the size, geographic representation, responsibilities and other aspects of the organization. I therefore recommend the following changes, but I have not attempted to provide actual language which should be incorporated in legislation:

1. Size of Board. Section 2.(a) -- page 2, line 3 -- provides for a nine-member Board of Directors, seven of whom would be drawn from states served by TVA.

Recommendation: The size of the Board should be increased from nine to 11, with the additional members drawn from states outside the Tennessee Valley.

Rationale: There is no magic number that prescribes the optimum size of a Board of Directors, but I believe that a Board consisting of somewhat more than nine members is desirable. I recommend 11, but the number could go as high as 13. (In the most recent action of the Congress in establishing a regional authority -- the Metropolitan Washington Airports Authority -- the Congress late last year decided upon an 11-member part-time Board of Directors. The U.S. Postal Service, established after a report in 1968 by a distinguished Presidential Commission on Postal Organization, also is governed by an 11-person Board of Governors.)

My recommendation of an 11-member Board of Directors is based on these considerations, among others:

(a) A larger Board would permit more diverse representation, with greater assurance of expertise within the Board on the issues it must face. My opinion on this point was reinforced by an interview with a former member of an important Board to whom I addressed this question: Would members of a part-time Board have time to do in-depth studies of the various issues requiring decisions? His response was that if the Board were large enough, several people would be sufficiently interested in any specific issue, and would have the necessary background, to provide meaningful guidance.

(b) Because TVA is an agency of the federal government and its work has national implications, additional representation on the Board from outside of the TVA area is desirable in order to give a broader national perspective to its operations. Enlarging the Board to 11 but retaining regional representation from seven members would insure that a significant number of Board members would provide a national viewpoint.

(c) Some of the most important work of a Board of Directors is accomplished in committees of the Board, but in order for the committees to function properly, the Board must be large enough to permit an ample number to serve on each committee. An 11-member Board better lends itself to committee activities than a nine-member Board.

My conclusions on the optimum size of the Board have been influenced, too, by the fact that of the nine large public power organizations which I surveyed (Exhibit B), the average consists of 11 members.

2. CEO should not be member of Board. Section 2.(a)(2) (A) and (B) -- page 2; line 20 -- provide that the chief executive officer of TVA shall be an ex officio member of the Board, and shall "have a vote on matters requiring Board consideration, except for matters that relate to appointment and compensation of the chief executive officer."

Recommendation: The chief executive officer should not be a member of the Board of Directors.

Rationale: There should be clear separation of responsibilities between policy-making and management. Making the CEO a voting member of the Board would place the CEO in the position of taking an active position in policy formulation, and could lead to conflicts which would impair his or her ability to carry out policies decided upon by the Board. The CEO should attend Board meetings and his/her opinion should be sought by the Board, but the CEO should not be placed in the position of voting on issues coming before the Board.

In this connection, Appendix B is also instructive. It indicates that none of the CEOs of large public power organizations which have part-time Boards of Directors is a member of the Board.

Some people with whom I discussed this issue strongly recommended that the CEO should be a member, if not chairman, of the Board in order to provide leadership for the Board and to set the Board's agenda. However, I believe these attributes can be achieved by a close working relationship between the chairman and the CEO. Furthermore, any advantages which might accrue from the CEO's membership on the Board would be outweighed by the disadvantages of blurring the lines between policy-making and administration -- one of the principal problems attributed to TVA's present structure.

3. Length of Term. Section 2.(a)(2)(B) -- page 3, line 7 -- provides that members of the Board shall be appointed for not more than three terms, and Section 2(d)(2) -- page 5, line 11 -- provides for Directors to serve three-year terms. These provisions are interrelated, and therefore I will consider them together.

Recommendation: Individual terms of Directors should be five rather than three years, and, except for those appointed initially, Directors should be limited to two five-year terms.

Rationale: I oppose the three-year term because even with staggered terms all Directors could be replaced within the four-year term of office of a President of the United States. The ability to do this would make TVA unduly susceptible to partisan political influence. Five-year terms would be preferable, so that no one President (unless a President served two terms) could normally appoint all Directors of the agency.

If the term of office were lengthened to five years, a Director should be limited to two terms. Thus, except for some initial appointees (see below), the maximum term of office would be 10 years, rather than nine under H.R. 4559.

The question arises whether any limit should be placed on the number of terms a Director might serve. Although such a limitation might deprive the agency of the services of an outstanding Director beyond 10 years, this disadvantage would be outweighed by the infusion of new thinking into the Board which would be accomplished by limiting the number of terms of office.

4. Staggering terms of office of Directors. Section 2(d)(1) -- page 4, line 19 -- provides that of the first members appointed to the Board of Directors after the enactment of this legislation, the terms of

two would expire in three years, three would expire in four years, and three in five years. This schedule would be necessary in order to stagger the terms of office of the Directors.

Recommendation: Of the first appointees to the Board of Directors, the terms of three should expire in three years, three should expire in four years, three should expire in five years, and two should expire in six years. Those having initial six-year terms would not be eligible for reappointment. All others would be eligible for reappointment for one additional five-year term.

Rationale: This change would be necessary to stagger the terms of office of the Directors, in view of the previous recommendation regarding the length of their terms and the number of terms each Director could serve.

5. Compensation for Board members. Section 2(f)(B)(i) and (ii) -- page 6, line 11 -- limits compensation for the chairman to 80 days per year, and to other members of the Board to 60 days per year.

Recommendation: In the first year of operation under the new Board, compensation for the chairman should be increased to 100 days, and compensation for other members of the Board should be increased to

80 days. Thereafter, compensation would be limited to the number of days provided in H.R. 4559.

Rationale: In the initial year of start-up of the new organization, considerable time would be required by the Board to organize itself, establish operating procedures, set forth criteria for selection of the CEO, select the CEO, and carry out other responsibilities. Consequently, I recommend that in the first year of operation of the Board, somewhat more days of compensation should be allowed the chairman and other members of the Board.

In connection with the provisions governing the compensation and duties of the chairman of the Board, some persons whom I interviewed recommended that the chairman serve full-time. The rationale for this suggestion was that in a large organization such as TVA, the chairman should generally have responsibility for external relationships (such as with Members of the Congress, the Administration, the general public and the press), whereas the CEO should be responsible for day-to-day internal administration.

Although such an arrangement conforms with the practice of some large public and private organizations, I do not recommend it for TVA. If the objective of a reorganization of TVA is to separate policy-making from management and to place management in the hands of a strong CEO, then I believe that the existence of a full-time chairman as well as a CEO would tend to becloud the distinction between the responsibilities of the two officials. Such an organizational arrangement also has the potential for engendering internal disputes. I therefore have rejected the concept of a full-time chairman.

6. Clarifying responsibility of the Board. Section 2(g)(1) and (2) -- page 6, line 19 -- charges the Board of Directors with the responsibilities of directing "the management of the business of the Corporation," and establishing policies for the management of the corporation and "a system of organizations to fix responsibility in and promote efficiency of the Corporation."

Recommendation: Strike the provisions noted above and instead insert language which defines the responsibilities of the Board as follows: (a) establish the broad goals, objectives and policies of the Corporation necessary or appropriate to carry out the provisions of the TVA Act as amended; (b) develop long-range plans to guide the Corporation in achieving its goals, objectives, and policies and provide assistance to the chief executive officer to achieve those goals, objectives and policies; (c) be responsible for ensuring that such goals, objectives and policies are achieved;

(d) approve an annual budget for the Corporation; (e) establish a system of salaries, benefits, and incentives for employees; (f) approve the salaries, benefits and incentives for those managers and technical personnel reporting directly to the CEO, and (g) ensure that all activities of the Corporation are carried out in compliance with applicable laws.

Rationale: This recommendation is made in order to clarify the functions of the Board, and to leave no ambiguity with respect to the division of responsibilities between the Board and management. In addition to adding language not contained in H.R. 4559, I have stricken the provision which calls upon the Board to "direct the management of the business of the Corporation." I have omitted the language cited because it leaves the clear impression that the Board has responsibilities for day-to-day management of the agency. There should be no question about the delegation of these responsibilities to the CEO.

In the language I have added, items (a), (b) and (c) are intended to clarify the role of the Board of Directors in setting policies and goals, and seeing that the goals are achieved.

Item (d), covering the approval of an annual budget, is a function that would normally be performed by a Board in any event, but it is so important that I believe it should be specified in law.

Item (e), which directs the Board to establish a salary and benefits plan, is inserted here, but the mechanics of the plan are spelled out in a subsequent recommendation described below.

In view of the importance of the positions of managers and technical personnel who report directly to the CEO, the Board of Directors should approve the salaries, benefits and incentives of this limited number of positions, and accordingly I have inserted this requirement in item (f).

The rationale for item (g) is obvious.

7. Standards for selection of CEO.

Recommendation: Insert in Section 2(g)(3) a provision which would require that the CEO meet the same standards as those contained in Section 2(b) which are applicable to the Board of Directors (see page 3, lines 11 through 24 and page 4, lines 1 and 2).

Rationale: This change is needed in view of my recommendation that the CEO not be a member of the Board of Directors. The intent of H.R. 4559 is that the CEO should meet the same standards as those prescribed for Directors. My recommendation would assure that this be done, even if the CEO is not a member of the Board.

8. Clarifying responsibilities of Board of Directors with respect to chief executive officer.

Recommendation: In addition to the provisions noted in 2(g)(3), the Act should make it clear that the chief executive officer serves at the pleasure of the Board, and has an obligation to keep the Board fully informed. The Board also should be prohibited from appointing one of its members to the position of chief executive officer in less than two years after the term of office of the director has expired.

Rationale: Although the Board may wish to offer the chief executive officer a contract, the CEO should nevertheless serve at the pleasure of the Board, in order to hold the CEO fully accountable. Also, if the Board is to exercise its responsibilities adequately, it should be kept fully informed by the CEO of the activities of the Corporation. The prohibition against the appointment of a member of the Board of Directors to the position of CEO within two years of completion of the Director's service on the board is intended to guard against a Board member making policy decisions on the basis of the effect which such decisions might have on that Director's candidacy for the position of CEO.

9. Responsibility for setting rates. Section 2(g)(4)(A) and (b) -- page 7, lines 20-24, and page 8, lines 1-3 - require the Board to appoint an

electric rate review committee composed solely of Board members.

Recommendation: Strike the lines indicated above.

Rationale: After intensive discussions with a number of persons, and after a great deal of thought, I am convinced that a rate committee of the Board should not be established, but instead the entire Board of Directors should have sole responsibility for this function.

The establishment of rates is one of the most significant and far-reaching duties of the Board of Directors. All of the various responsibilities of the agency -- economic, social and other -- come to a focal point in rate design.

Those who argue against a separate rate committee point out that such a committee is likely to become too narrow in its focus. They contend -- and I agree -- that rates are so important that the entire Board should be involved in this process from beginning to end, including the holding of hearings and other activities that are undertaken as part of rate-setting.

I have asked several who have been directly involved in the policy-making and management of large public power organizations whether an 11-member part-time Board of Directors could be expected to spend the time necessary to carry out the work involved in rate setting. The answer has been in the affirmative.

10. Compensation of employees. Subject to the provisions of Section 3, which are described below, Section 2(h) -- page 8, line 20 -- establishes a ceiling for the compensation of all TVA employees except the CEO. It permits the Board of Directors to "(1) establish an annual fund of some fixed amount from which the Board may grant awards to employees in recognition of unusually meritorious acts of benefit to the Corporation;" and "(2) authorize supplements on an annual basis to the basic pay of individual employees when recruitment or retention problems are caused by substantially higher pay for comparable levels of work in the Federal Government or for which no similar positions are found in the Federal Government."

H.R. 4559 further states that the aggregate amount paid to any employee as basic pay and awards and supplements shall not exceed the annual rate payable for positions at level I of the Executive Schedule in effect at the end of the fiscal year. At the present time level I of the Executive Schedule provides for annual compensation of $88,800 (see footnote 2 and Exhibit D).

Section 3(3) - page 10, line 6 -- directs the CEO to establish the rate of basic pay for managers, assistant managers, officers, employees, attorneys and agents, but at a level not to exceed the annual rate payable for positions at level V of the Executive Schedules (as of January 5, 1987, the compensation for Level V was $70,800).

Recommendation: Strike both of the provisions noted above, Section 2(h) and Section 3(3), and instead insert a new section on compensation, to include the following elements:

a. The Board of Directors should approve a compensation plan covering salaries, benefits and incentives for all employees.

b. The compensation plan should be based on an annual survey of the prevailing salaries, benefits and incentives for similar work in private industry, including engineering and electric utility companies; publicly owned electric utilities; and Federal, State and local governments. Education, experience, level of responsibility, geographic differences, and retention and recruitment needs should be taken into account in determining salaries of employees.

c. No salary could be established under a compensation plan until after the survey upon which it is based, and the plan itself, have been made available to Congress and to the public for a period of 30 days.

d. The CEO should be directed to fix the salary and benefits of employees whose annual salary is not greater than the annual rate payable for positions at Level IV of the Executive Salary Schedule.

e. Upon the recommendation of the CEO, the Board of Directors should approve the salaries of those employees whose annual salaries would be in excess of Level IV. The salaries of such employees should not exceed the prevailing salaries for work of a similar nature as determined by the annual compensation survey.

Rationale: I regard the recommendations above as among the most important in any revision of the TVA Act. Unless the current salary situation for top-ranking TVA personnel is addressed satisfactorily, any restructuring of the agency would not accomplish its intended purpose. Recent experience has demonstrated that TVA simply cannot obtain the qualified personnel it needs under the current pay ceiling. As long as this problem exist, it is doubtful whether TVA can regain control over its nuclear power program.

As the largest electric power system in the United States, TVA is responsible for supplying electricity upon which 8 million people located in seven states depend. Numerous major industrial plants in the region likewise depend upon reliable service by TVA, either directly or through the local distribution systems. Among these are aluminum, chemical, and automobile plants. TVA also furnishes power to a number of vital national defense installations.

The TVA also presently faces the demanding engineering task of modifying five very large nuclear power plants in order to bring them into compliance with federal regulations, and to put them into operation safely and reliably in order to meet the needs for power of a major region of the country.

In addition, the quality of TVA power operations affects the people and industries of an area much larger than its service area, because of the interconnections and interdependence between TVA and surrounding electric power systems, and the close and continuous electrical coordination among them.

It is just prudent public policy, in this situation, to give the TVA Board the tools it needs to do a good job. One of the essential "tools" is the authority to establish the salary schedules which are required to recruit and retain the highly specialized and qualified personnel who are essential to the successful planning, construction and operation of the complex TVA power system.

Because of the pay cap, TVA has had to resort to the expedient of hiring contractors to perform management functions which ordinarily would be the responsibility of TVA staff. The chairman of the TVA

Board of Directors stated at a recent meeting of the Southern States Energy Board's Advisory Committee on TVA that if the TVA pay cap were lifted, TVA could save money by hiring its own staff to perform certain responsibilities rather than engaging consultants.

In this connection, I am advised by TVA staff that an additional expenditure of $500,000 to $1 million a year would be required if those positions affected by the present cap ($74,500 as of January 5, 1987) were to be increased to an amount that would permit TVA to attract and retain qualified persons. Considering the fact that TVA is now paying a premium of a considerably greater amount for contract employees, the retention of the present pay cap is false economy. Given the stakes involved, the additional amount required is insignificant when compared with TVA's present annual salary budget of $1.1 billion and its total budget of $6.9 billion.

The compensation ceiling also presents personnel management problems. Having higher paid consultants work side-by-side with TVA employees whose pay is capped must inevitably lead to a lowering of morale for TVA staff. The pay cap also discourages the employment or retention of younger employees who see their compensation limited in a manner not circumscribed by other employers.

Although H.R. 4559 is a step in the right direction, it does not adequately address the compensation problem. It does not establish a compensation ceiling for the CEO, and this is commendable. However, as pointed out in Chapter II of this report (see page 29), there must be some clarification of the intent of Sections 2(h) and 3(3).

TVA has indicated that the salaries of 30 to 50 persons (out of a total workforce of about 30,000) would have to be above the present salary cap in order to attract and retain qualified persons for certain key jobs.

If one accepts the most liberal interpretation of Section 3(3) and the most generous administration of this section by the TVA Board of Directors, I was informed by TVA staff that the present ceiling of $88,800 in level I would mean that compensation for a total of 15 to 30 senior personnel would be capped at an amount that would not be comparable for such positions outside of TVA.

Aside from the immediate problems that would result from imposing a ceiling of level I, the establishment of such a ceiling in federal legislation would not give TVA the flexibility it requires in order to meet prevailing industry conditions, which are subject to continuing change.

Under the plan I have outlined, the compensation for the vast majority of TVA's employees would be kept within the present ceiling for TVA employees (level IV or $74,500 as of January 5, 1987). However, on the basis of an annual wage survey, the TVA Board of Directors could establish a compensation plan which made it possible for some salaries to exceed that of level IV. Any salaries in excess of that level would have to be based on the findings of an annual compensation survey, and the plan itself would have to lie before Congress for 30 days before it could be implemented. Furthermore, only the Board of Directors could approve any salaries in excess of level IV.[3]

The best information I was able to obtain from TVA was to the effect that between 30 and 50 senior personnel would have to have salaries in excess of present level IV in order for TVA to attract and retain the quality of personnel required for these positions.

A number of other Federal agencies have already been permitted by the Congress to exceed level IV of the

---

[3] A precedent for TVA's proposals to lie before Congress for 30 days can be found in the procedure for acting upon the quadrennial recommendations of the Commission on Executive, Legislative and Judicial Salaries (the "Quadrennial Commission"). The President's report to the Congress based on the Commission's recommendations must lie before Congress for 30 days, and the President's recommendations are approved unless rejected by the Congress within that 30-day period.

Executive Salary Schedules for some of its employees. Information is not as comprehensive on this point as it might be, but some useful data were contained in a survey published on December 21, 1983 by the Congressional Research Service of the Library of Congress. The publication, entitled "Survey of Federal Occupations Whose Pay and Compensation Levels Exceed the 5 U.S.C. 5308 Federal Pay Cap (Executive Level V, $63,800)" was prepared by James P. McGrath, Analyst in American National Government, Government Division of the Congressional Research Service.

A major section of the report dealt with government corporations such as TVA. Unfortunately, the published pay and compensation data provided by the 31 government corporations surveyed were limited, and several considered such information privileged or confidential; others were reluctant to comply with the request for this information. Nevertheless, this report identified a number of government agencies and Federal corporations whose salaries exceed levels IV and V. I believe that a Congressional committee could obtain the information which was denied the Congressional Research Service. I therefore recommend that a Member of the Congress request such a survey.

More recently, Carlos Smith, of the law firm of Strang, Fletcher, Carriger, Walter, Hodge & Smith of

Chattanooga, Tennessee, also obtained information on Federal government salaries which exceed level V. Excerpts from a report by Mr. Smith to the Tennessee Valley Pubic Power Association are contained in Appendix C.

It is interesting to note, too, that the voters in at least one state -- California -- last fall rejected by a wide margin an effort to impose a salary ceiling of $64,000 on the state's public employees. On November 4, 1986, a total of 67.3% of the state's voters opposed a proposition which would have imposed such a limit. A spokesman for the Sacramento Municipal Utility District said it would have been "difficult, if not impossible, to run something as complex as an electric utility in California" if the proposition had been approved. (SMUD has installed capacity of 1,634 megawatts and a net electric plant investment of $1.2 billion; TVA's installed capacity is 32,000 megawatts and its power assets total $21.5 billion.) The Los Angeles Department of Water and Power, which operates the largest municipally owned electric utility in the United States (10,000 megawatts capacity, $2.6 billion net electric plant), indicated that about 100 of its employees would have been adversely affected by the proposed pay cap.

If utilities which are substantially smaller than TVA's power system feel that they cannot operate under a pay ceiling not substantially lower than TVA's, how can TVA be expected to do so?

11. Authority of CEO to appoint personnel. Section 3(1) -- page 9, line 22 -- provides that the CEO shall appoint the personnel of the agency "with the advice and consent of the board."

Recommendation: Strike the words quoted above.

Rationale: This recommendation is made within the context of the underlying thesis of this bill -- the separation of policymaking and management. Except for the appointment of the CEO, and the establishment of salaries for those who report directly to the CEO and those whose salaries exceed level IV, the Board of Directors should not be involved in personnel matters.

12. Appointment of inspector general. Section 2 - page 10, line 17 -- calls for an amendment to the Inspector General Act of 1978 to require the appointment of an inspector general who shall report to and be under the general supervision of the Board of Directors of TVA.

Recommendation: (a) Insert such a provision in the TVA Act rather than the Inspector General Act of 1978, and (b) require that the inspector general be appointed by and report to the chief executive officer rather than the Board of Directors.

Rationale: TVA was established by the Congress in 1933 and clothed with the power of government but possessed with the flexibility and initiative of a private enterprise. Accordingly, TVA in many respects operates in a unique manner, and many of its successes could not have been achieved without the flexibility granted by the Congress. I therefore believe that a fundamental change such as the statutory requirement for appointment of an inspector general should be contained in the TVA Act itself, rather than in a separate statute some provisions of which now or in the future might not be applicable to TVA. The inclusion of this provision in the TVA Act is especially appropriate in view of the fact that TVA on its own initiative has already appointed an IG.

I also recommend that the inspector general be appointed by and report to the CEO rather than the Board of Directors. If the CEO is to be held accountable for the day-to-day operations of the organization, the CEO should appoint someone as important to the operation of the agency as the IG. An IG reporting to the CEO could be an important management tool of the CEO, assuring that policies and procedures are being carried out properly.

On the other hand, delegation to the Board of Directors of the appointment and reporting responsibilities of the IG would tend to perpetuate one of the current flaws in TVA's organizational structure -- that is, intrusion of management responsibilities on the work of the Board of Directors. A free-wheeling IG appointed by and reporting to the Board of Directors also could be a divisive force within the organization.

A contrary view holds that there must be checks and balances in the agency, and therefore the IG should be appointed by and report to the Board of Directors, so that there would not even be a taint of suspicion that the IG's investigations could be "covered up" by the CEO.

There is substance to this concern, making this a close call. However, I believe that on balance this concern is outweighed by the necessity of clearly separating the lines of responsibility between the Board of Directors and CEO.

The danger of a "cover-up" by the CEO could be mitigated by requiring that copies of the IG's reports be submitted to the Board of Directors as well as to the CEO.

IV. RECOMMENDATIONS

Structure cannot assure either the success or failure of an organization. Decisions are made by people, and the quality of those decisions can be made within a variety of organizational arrangements. Nevertheless, the structure of an organization can have an important influence on decision-making and management of an enterprise. That structure, for a large, complex public agency such as TVA, should at the very least provide for a broadly-based, representative policymaking Board, and a strong chief executive officer.

I cannot say to what extent the organizational framework of TVA has been a major factor contributing to the serious problems which have confronted TVA in recent years. Although I do not believe that a different structure would resolve TVA's immediate problems, I am convinced that this structure does not serve the best long-range interests of TVA, and should be changed some time in the future.

TVA's organizational arrangement is flawed in these respects:

1. It violates the fundamental principle of separation between policy-making and management. Regardless of the best efforts which might be made by the TVA Board of Directors to divorce itself from day-to-day management, the Board will inevitably be involved

in management, because it is directed by the TVA Act to have such responsibility. A full-time Board of Directors further enhances the likelihood that it will not divorce itself from management.[4]

2. The fact that the TVA Board of Directors has statutory responsibility for both policy-making and management diverts the attention of the Board from what should be its primary functions, such as establishing policies, and assuring that policies are being carried out effectively.

3. The small size of the TVA Board limits the breadth of views that will be considered by the Board. There have frequently been long periods when the Board of Directors consisted only of one or two members, and I have heard reports that even when there was a full complement of three Board member, strong chairmen have limited the collegial process. The nature of the policy decisions facing TVA demands the widest possible range of views to be represented among the Board of Directors, and full debate on the issues. It is entirely possible

---

[4] In a chapter on "Management and Accountability" in the book, "TVA - Fifty Years of Grass-roots Bureaucracy," published by the University of Illinois Press in 1983, Avery Leiserson, of Vanderbilt University, characterized the role of the TVA Board in this way (page 129): "The clear-cut conception of a board restricting itself solely to policy, with the G.M. [general manager] exclusively responsible for operations and execution, has never been applicable to TVA."

that if TVA had had a larger, more representative Board of Directors, with more diverse viewpoints, the Board would have been more cautious in inaugurating the extensive nuclear power program that was undertaken during the 1960s.

4. A part-time Board of Directors could well attract a larger pool of qualified Board members than a full-time Board. The long delay (almost a year) in filling a current vacancy on the Board of Directors attests to the difficulty of finding able Board members, on a full-time basis. On the other hand, I am convinced that under today's conditions, distinguished citizens could be attracted to serve on a part-time Board of Directors. The same individuals, however, would not be willing to make the sacrifice of moving and giving up other responsibilities in order to serve in a full-time capacity.

5. Although the TVA Board of Directors has created the position of general manager, that office is not called for in the TVA Act. In any event, the general manager's position must inevitably be subordinated by the fact that the Board has statutory responsibilities for management of the agency. An organization with a net plant investment of $21.5 billion, 30,000 employees and a complex mission affecting the lives of millions of people cries out for

a strong, experienced executive whose powers are clearly delineated and supported by statutory authority.

6. By limiting the compensation which it can pay its top-level staff to level IV (presently, $74,500 per annum), the TVA Act has made it impossible for TVA in recent years to hire and retain the managers and specialized technical personnel who are needed, especially for its nuclear power program. TVA therefore has been forced to resort to the expedient of hiring contract employees to take over key management and technical positions. TVA must regain control over its nuclear power program as quickly as possible, but it will not be able to do so unless something is done about the pay cap prescribed by the TVA Act. There may be some expedients which could alleviate this problem in the near-term, but in the long-run a more rational approach to compensation is needed if TVA is to attract and retain the quality of personnel required.

I believe that these weaknesses in the TVA Act must be addressed, sooner or later. However, I do not recommend that the Tennessee Valley Public Power Association initiate such action in the immediate future, for the following reasons:

1. The serious problems currently facing TVA are of an immediate nature, and demand prompt action. Some of these problems can be resolved administratively under

existing law. Consideration of far-reaching changes in structure contemplated by the Flippo bill would distract TVA's attention from its more immediate problems, and could hinder the agency in resolving those issues as expeditiously as possible.

2. The process of adopting legislation such as the Flippo bill would require considerable time, and the bill could not be enacted soon enough to have an impact on the agency's immediate future. Even if the bill could be enacted by the end of the One-hundredth Congress (that is, by the latter part of 1988), it could not be implemented for some months, considering the time required to appoint a new Board of Directors, obtain their confirmation by the Senate, select a CEO, and reorganize the agency under the new Act. The effects of a reorganized agency therefore would not be manifested for perhaps as long as six months or a year after enactment. Thus, the legislation would not be helpful in resolving TVA's immediate problems.

3. There are serious dangers in considering far-reaching changes in the TVA Act at a time when the agency is under severe attack. Opening the Act for revision in such a hostile environment could lead to changes which have long been sought by opponents of TVA,

and which would not be in the best interests of the organization.

4. Discussions which I and other representatives of TVPPA have held with a number of Members of the Congress have made it clear that the prevailing sentiment among the Tennessee Valley Congressional delegation at this time does not favor legislation which would open the TVA Act to revision. For TVPPA to proceed now in the face of this mood in the Congress would not be the most productive use of TVPPA's resources.

Congressman Flippo should be complimented for taking the time and effort to address TVA's structural problems in a thoughtful manner. However, for the reasons noted above, I do not believe that TVPPA should undertake at this time to seek legislation along the lines of the H.R. 4559.

Nevertheless, there are other forces at work which may bring about Congressional consideration in the near future of the Flippo bill or other legislation of possibly broader scope.

For example, Governor Gerald Baliles of Virginia, in his capacity as chairman of the Southern States Energy Board, has appointed an Advisory Committee on TVA which is studying structure, financing and the power program of TVA. If this committee should recommend consequential changes which are subsequently supported by the Southern States Energy Board and the Southern Governors, powerful forces would be at work to advocate amendments to the TVA Act.

Further delays in the start-up of TVA's nuclear power program, or other difficulties with this program, also could stimulate Congressional action.

If these or other circumstances should bring about Congressional consideration in the near future of legislation such as the Flippo bill or other proposals to amend the TVA Act, then I recommend that TVPPA support the Flippo bill, but with the amendments I have proposed in Chapter III of this report.

Regardless of what happens in the immediate future, I believe that sooner or later the issue of TVA's structure must be addressed. The organizational structure has fundamental weaknesses which I have described, and these weaknesses have the potential of contributing to flawed policy positions and/or ineffectual management.

The issues raised by the Flippo bill are not whether the TVA Board of Directors should consist of three, nine, 11 or 13 Directors. There is no magic number, and it would be a mistake if major attention were focused on this "numbers game." The real issues are:

1. Whether the Board of Directors should be a broadly-based, representative, responsive policy-making body rather than a body which, at present, is of limited size and has responsibilities for both policy-making and management;

2. Whether the day-to-day management of the agency should be delegated to a strong, experienced executive officer whose position is invested with powers mandated by law, and whose salary is not subject to the present federal pay ceiling, and

3. Whether TVA will have a compensation system that will permit it to attract and retain the highly qualified technical and management personnel that are needed to manage and operate this agency.

The successful operation of an organization as large and complex as TVA demands a strong, experienced chief executive officer who has the authority to carry out policies carefully considered by a sufficiently large Board of Directors consisting of distinguished citizens who themselves have a breadth of experience and background.

I believe that H.R. 4559 moves significantly in these directions. It would establish a larger, part-time Board which would have responsibility for establishing policies. It would create a new position of chief executive officer who would be a professional administrator, who would have clearly defined authority to manage the day-to-day operations of the agency, and whose salary would not be subject to the present federal pay ceiling.

However, H.R. 4559 is deficient in several important respects, notably in its failure to deal adequately with the pay cap problem. I believe that TVPPA, whose members are so directly affected by the success or failure of TVA, could make a constructive contribution to the future of that important agency if it could, at an appropriate time in the future, support the general concept of the Flippo bill, but with the changes I have recommended.

In the interim, I recommend that TVPPA support any discrete, more limited legislative efforts which might be made to address one of TVA's most pressing problems: the need to lift or eliminate the present ceiling on the compensation which TVA can pay to a relatively small number of managers and technical personnel.

TVA has an enviable record of service to the people of the Tennessee Valley. It has been a worldwide model for natural resource development. Its hydroelectric and coal-fired generating plants, and its integrated transmission system, continue to have a proud record of achievement.

However, TVA cannot survive on the basis of its historic achievements. It must continue to earn its reputation -- and that reputation has been seriously tarnished by the agency's nuclear power program. It is not enough to say that other utilities have experienced similar difficulties with their nuclear plants.

In the past, TVA has not feared to be in the forefront of change, and to respond constructively to new conditions. If TVA is to continue to be a model for a government corporation that can operate with flexibility, dispatch, efficiency and imagination, it must sooner or later undergo fundamental structural changes which will separate its policy-making from management responsibilities, create by statute the position of a strong executive officer, and provide compensation that can attract and retain "the best and the brightest." A larger, more broadly representative Board of Directors concentrating solely on policy issues might also bring fresh perspective to the future role of this unique and valuable institution which has served the Tennessee Valley and the Nation so well for more than half a century.

EXHIBIT A

I

99TH CONGRESS
2D SESSION

H. R. 4559

To amend the Tennessee Valley Authority Act of 1933 and the Inspector General Act of 1978.

IN THE HOUSE OF REPRESENTATIVES

APRIL 10, 1986

Mr. FLIPPO (for himself, Mr. SHELBY, Mr. ERDREICH, Mr. CALLAHAN, Mr. DARDEN, Mr. JENKINS, and Mr. GORDON) introduced the following bill; which was referred jointly to the Committees on Public Works and Transportation and Government Operations

---

A BILL

To amend the Tennessee Valley Authority Act of 1933 and the Inspector General Act of 1978.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. CHANGE IN COMPOSITION, OPERATION, AND DUTIES OF THE BOARD OF DIRECTORS OF THE TENNESSEE VALLEY AUTHORITY.

(a) CHANGES IN BOARD OF DIRECTORS.—Section 2 of the Tennessee Valley Authority Act of 1933, relating to the composition, operation, and duties of the board of directors of the Tennessee Valley Authority, is amended by striking out such section, and inserting in lieu thereof the following new section:

"SEC. 2. (a) The board of directors of the Corporation (hereinafter in this Act referred to as the 'Board') shall be composed of nine members, as follows:

"(1) eight members to be appointed by the President, by and with the advice and consent of the Senate, of which—

"(A) one may be a resident of any State in the Union,

"(B) three shall be residents of Tennessee,

"(C) one shall be a resident of Alabama,

"(D) one shall be a resident of Kentucky,

"(E) one shall be a resident of Mississippi, and

"(F) one shall be a resident of either—

"(i) Georgia,

"(ii) North Carolina, or

"(iii) Virginia; and

"(2) one ex officio member, who shall—

"(A) serve by virtue of his position as chief executive officer of the Corporation, and

"(B) have a vote on matters requiring Board consideration, except for matters that relate to appointment and compensation of the chief executive officer.

A successor to a member of the Board shall be appointed in the same manner and with the same residence requirements as the original members. Appointments may be made under this subsection without regard to section 5311(b) of title 5, United States Code. Members may be reappointed for two additional terms. The President shall designate one of the members he appoints to serve as the Chairperson of the Corporation.

"(b) To serve as a member of the Board, a person shall—

"(1) be a citizen of the United States;

"(2) profess a belief in the feasibility and wisdom of this Act; and

"(3) have no financial interest in—

"(A) any public-utility corporation engaged in the business of distributing and selling power to the public;

"(B) any corporation engaged in the manufacture, sale, or distribution of fixed nitrogen or fertilizer, or any ingredients thereof; or

"(C) any business that may be adversely affected by the success of the Corporation as a producer of either concentrated fertilizers or electric power.

"(c) In appointing members who are required by this Act to reside in the Tennessee Valley Authority service area (hereinafter in this Act the 'service area'), the President shall—

"(1) consider recommendations from such public officials as—

"(A) governors of states that are in the service area,

"(B) individual citizens, and

"(C) business, industrial, labor, electric power distribution, environmental, civic and service organizations; and

"(2) seek qualified directors from among persons who reflect the diversity and needs of the service area.

"(d) With respect to the terms of office of Board members—

"(1) of the terms of the first members appointed by the President under subsection (a)—

"(A) two shall expire on the day which is three years after the effective date of such subsection;

"(B) three shall expire on the day which is four years after the effective date of such subsection; and

"(C) three shall expire on the day which is five years after the effective date of such subsection, as designated by the President at the time of appointment.

"(2) except as provided in paragraph (3), members appointed after the first members appointed under paragraph (1) shall each serve a term of office expiring three years from the date of the expiration of their predecessor's term; and

"(3) any member appointed to fill a vacancy in the Board occurring prior to the expiration of the term for which his predecessor was appointed shall be appointed for the remainder of such term.

"(e) Vacancies in the Board shall not impair its power to act, so long as there are five voting members in office. Five voting members of the Board shall constitute a quorum for the transaction of business.

"(f) Members of the Board shall receive compensation, as follows:

"(1) with respect to the eight Board members appointed by the President—

"(A) a stipend at the rate of $10,000 per year, except that no member of the Board who is a full time employee of the Corporation shall be entitled to such stipend, and

"(B) compensation at a rate equivalent to the rate prescribed for officers under level V of the Federal Executive schedule for each day such members are engaged in the actual performance of duties as members of the Board at meetings or hearings for up to a total of—

"(i) sixty days per year, or

"(ii) in the case of the number designated to act as Chairperson, eighty days per year; and

"(2) travel expenses, including per diem in lieu of subsistence, in the same manner as persons employed intermittently in Government service under section 5703 of title 5 of the United States Code.

"(g) The Board shall—

"(1) direct the management of the business of the Corporation;

"(2) establish—

"(A) policies for the management of the Corporation within the guidelines of legislative authority and executive direction, and

"(B) a system of organizations to fix responsibility in and promote efficiency of the Corporation;

"(3) with regard to the Chief Executive Officer to the Corporation—

"(A) appoint a person to serve as such officer who has management experience in large complex organizations,

"(B) delegate to such officer all duties to manage the Corporation not specifically reserved to the Board, and

"(C) provide a system of compensation for such officer which includes—

"(i) a basic rate of pay, and

"(ii) payment of incentives for personal and corporate performance, which incentives shall be determined as the Board deems appropriate after evaluation of such officers' activities and accomplishments;

"(4) create an electric rate review committee, composed solely of Board members, which shall—

"(A) hold public hearings on proposals for changes in the Corporation's electric power rates, and

"(B) make recommendations to the full Board for such rate adjustments as are necessary to insure that rates are as low as feasible;

"(5) create an audit committee, composed solely of Board members independent of the management of the corporation, which shall—

"(A) recommend to the Board an external auditor,

"(B) receive and review reports from the external auditor, and

"(C) make such recommendations to the Board as are necessary;

"(6) create such other committees of Board members as the Board deems appropriate; and

"(7) conduct public hearings on issues that would have a substantial effect on –

"(A) the electric rate payers in the region, or

"(B) the economic, environmental, social, or physical well-being of the people of the region.

"(h) With regard to compensation of employees other than the chief executive officer, and subject to the provisions of section 3, the Board may—

"(1) establish an annual fund of some fixed amount from which the Board may grant awards to employees in recognition of unusually meritorious acts of benefit to the Corporation; and

"(2) authorize supplements on an annual basis to the basic pay of individual employees when recruitment or retention problems are caused by substantially higher pay for comparable levels of work in the Federal Government or for which no similar positions are found in the Federal Government.

Except in the case of the chief executive officer, the aggregate amount paid to an employee as basic pay, awards specified in paragraph (1), and supplements to basic pay specified in paragraph (2) shall not exceed the annual rate payable for positions at level I of the Executive Schedule in effect at the end of such fiscal year.".

(b) CHANGE IN MANNER OF APPOINTMENT OF STAFF.—The first paragraph of section 3 of the Tennessee Valley Act of 1933 is amended by striking out such paragraph and inserting in lieu thereof the following as a new first paragraph:

"SEC. 3. The Chief Executive Officer of the Corporation shall—

"(1) appoint, with the advice and consent of the board, and without regard to the provisions of Civil Service laws applicable to officers and employees of the United States, such managers, assistant managers, officers, employees, attorneys, and agents, as are necessary for the transaction of the business of the Corporation;

"(2) define the duties of the persons appointed under subparagraph (1); and

"(3) establish, subject to board approval, the rate of basic pay for such managers, assistant managers, officers, employees, attorneys, and agents, not to exceed the annual rate payable for positions at level V of the Executive Schedules in effect at the end of such fiscal year.

Any appointee of the Board may be removed in the discretion of the Board.".

(d) EFFECTIVE DATE.—The changes made by this section shall be effective on the day which is six months after the date of the signing of this Act by the President.

SEC. 2. EXTENSION OF INSPECTOR GENERAL ACT PROTECTIONS AND REQUIREMENTS TO THE TENNESSEE VALLEY AUTHORITY.

The Inspector General Act of 1978 is further amended by inserting after section 8A the following new section:

"PROTECTIONS AND REQUIREMENTS FOR THE OFFICE OF INSPECTOR GENERAL IN THE TENNESSEE VALLEY AUTHORITY

"SEC. 8B. (a) Any office of Inspector General or other audit unit established in the Tennessee Valley Authority, a

Federal corporation, shall be responsible for the conduct of audits and investigations of the programs and operations of the corporation in accordance with the requirements of this section. The Inspector General to direct the audit unit shall be appointed by the board of directors in accordance with the laws and regulations governing appointments in the Tennessee Valley Authority. After a date which is six months after the date of enactment of this section, there shall be no more than one audit unit in the corporation.

"(b) The Inspector General shall report to and be under the general supervision of the board of directors of the corporation and shall not report to, or be subject to supervision by, any other officer of the corporation. Neither the board of directors nor the officers of the corporation shall prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation, or from issuing any subpena during the course of any audit or investigation.

"(c) If an Inspector General is removed from office or is transferred to another position or location, the board of directors shall promptly communicate the reasons for any such removal or transfer to both Houses of Congress.

"(d) Sections 4, 5, 6, and 7 of this Act shall be applied to the Tennessee Valley Authority, its office of Inspector General and the board of directors of the corporation (as such terms are defined in subsection (d)) by substituting—

"(1) 'Tennessee Valley Authority' for 'establishment'; and

"(2) 'board of directors of the Tennessee Valley Authority' for 'head of the establishment'.

"(e) As used in this section—

"(1) the term 'audit unit' or 'office of Inspector General' means a component of the Tennessee Valley Authority which carries out audits or investigations, or both, of the programs and operations of the corporation, but does not include a component that carries out audits or investigations only as a part of the regulatory or supervisory programs of the corporation.".

○

EXHIBIT B

ADMINISTRATIVE ORGANIZATION OF REPRESENTATIVE LARGE PUBLIC POWER SYSTEMS

	Massachusetts Municipal Wholesale Electric Co.	Nebraska Public Power District	
QUESTIONS	MMWEC	NPPD	SANTEE-COOPER
Installed capacity (MW)	692	3,051	3,089
1. No. of members of Board	9	11	11
2. Geographic representational requirements	None - Bd. elected by weighted vote (4) and popular vote (3). Nomination Committee has representatives from each region.	Geographical Director Subdivisions are established by District to have approximately equal population representation and approved by Nebraska Power Review Board.	One director from each of state's 6 Congressional district, one from each of the 3 counties containing direct service retail customers chairman is an at-large appointment.
3. How members selected			
Elected	7	X	
Appointed	2		X
If appointed, by whom	Governor		Governor, with advice & consent of State Senate.

	Massachusetts Municipal Wholesale Electric Co.	Nebraska Public Power District	
QUESTIONS	MMWEC	NPPD	SANTEE-COOPE
4. Statutory qualifications of Board members	Elected from member towns/cities	Must be an elector in subdivision he is to represent as Board Member, shall not be full-time or part-time employee of District unless granted unpaid leave of absence, shall not be member of governing board of more than one public power district.	None
5. Length of term - Years	1	6	7
6. Is there limitation on # of terms member of Board can serve?			
Yes			
No	X	X	X
If yes, what is limit on # of yrs.?			
7. Annual compensation of:			
Members of Board	0	$6,000	$8,000
Chairman of Board	0	$7,200	$24,000
If there is means of compensation other than annual stipend, explain:	Reimbursement for expenses, travel & meals.	Plus expenses incurred.	Paid actual expense in performance of director duties.

		Massachusetts Municipal Wholesale Electric Co.	Nebraska Public Power District	
	QUESTIONS	MMWEC	NPPD	SANTEE-COOPE
8.	Is there limitation on # of days member of Board can serve during a year?			
	Yes			
	No	X	X	X
	If yes, what is this limitation?			
	Chairman) Members)Days			
9.	Statutory duties of Board	See enabling legislation - Acts of 1975 Chapter 775 exercised by Board. Copy of District By-Laws attached, which incorporate specific items delineated in various sections of State Statutes.	Corporate powers of District are vested in and	Footnote #1
10.	Does Board have ultimate authority to set electric rates?			
	Yes		X	X
	No N.A.			
	If yes, what is the procedure used to set rates?		Staff prepares rate recommendations reviewed with Committee of Board & submitted to full Board for approval. Hearing for wholesale	Footnote #2

	Massachusetts Municipal Wholesale Electric Co.	Nebraska Public Power District	
QUESTIONS	MMWEC	NPPD	SANTEE-COOPE
		rates would be held before adoption only if requested by wholesale customers pursuant to provisions of District wholesale contracts.	
11. What are audit responsibilities of Board	Directs & funds audits as necessary or desired.	Board has Audit Committee who review or recommend specific audits. District hires auditing firm to do annual audits & District has internal audit department that performs other audits.	Internal auditor has parallel reporting responsibilities to Board of Dir. Finance Committee
12. Is Chief Exec. Officer appointed by Board?			
Yes	X	X	X
No			
If not, who appoints CEO?			
13. Is CEO member of Board?			
Yes			
No	X	X	X
If yes, does CEO have vote on Board			
Yes			
No			

QUESTIONS	Massachusetts Municipal Wholesale Electric Co. MMWEC	Nebraska Public Power District NPPD	SANTEE-COOPE
14. Does statue under which your utility operates specify duties of CEO?			
Yes	X	X	
No			X
If yes, please describe	Through MMWEC By-Laws	See By-Laws of District. Also see copy of resolution of delegated responsibilities to CEO which are consistent with provisions of various statutes governing public power district.	
15. Is there statutory ceiling on compensation paid CEO?			
Yes			
No	X	X	X
If yes, what is ceiling? $ per annum			
16. Is there statutory ceiling on compensation paid other employees?			
Yes			
No	X	X	X
If yes, what is ceiling? $ per annum			

QUESTIONS	Massachusetts Municipal Wholesale Electric Co. MMWEC	Nebraska Public Power District NPPD	SANTEE-COOPE
17. Does Board have full authority to fix compensation of employees?			
Yes	X	X except as delegated to CEO	X
No			
18. Any additional comments you wish to make about your organization's structure	By-Laws, Enabling Legislation, current Organization & Functions Manual attached	Responsibilities & duties of Governing Boards & CEO's are scattered through many statutes, so difficult to separate out.	

	Municipal Electric Authority of Georgia	New York State Power Authority Supply System	Washington Public Power
QUESTIONS	MEAG	NYSPA	WPPSS
Installed capacity (MW)	1,036	6,806	1,993
1. No. of members of Board	9	5	11
2. Geographic representational requirements	Live in participant city	None, but customarily done.	5 elected from sup. sys. membership, so are from Wash. State. 6 "outside" members have no geographic restriction, but may not be associated with NW electric utilities or BPA.
3. How members selected			
Elected	3		
Appointed		X	X
If appointed by whom		Governor	8 by membership of Sup. Sys., 3 by Governor
4. Statutory qualifications of Board members	Reside within city limits of participant city.	None	See RCW 43.52.374 (b)(i)-(v)
5. Length of term - Years	3	5	4

	Municipal Electric Authority of Georgia	New York State Power Authority	Washington Public Power Supply Syste
QUESTIONS	MEAG	NYSPA	WPPSS
6. Is there limitation on # of terms member of Board can serve?			
Yes			
No	X	X	X
If yes, what is limit on # of yrs.			
7. Annual compensation of:			
Members of Board	None	$12,000))part-	None
Chairman of Board	None	$59,000)time	
If there is means of compensation other than annual stipend explain:	Expenses only	None	$500 per meeting (means $500 per day in event that more than one meeting is held per day.
8. Is there limitation on # of days member of Board can serve during a year?			
Yes			
No	X	X	X
If yes, what is this limitation?			
Chairman) Members)Days			

	Municipal Electric Authority of Georgia	New York State Power Authority	Washington Public Power Supply Syste
QUESTIONS	MEAG	NYSPA	WPPSS
9. Statutory duties of Board	Represents all 48 participants, set agency policy, set agency rates or costs and hire CE).	Chairman is CEO by statute; appointed by officers; policy; contract approvals of certain kinds; rate setting; annual expense budget approvals.	Management & control of Sup. Sys. (see RCW 43.52.374-43.52.378 for specifics).
10. Does Board have ultimate authority to set electric rates?			
Yes			
No	X	X	X
If yes, what is procedure used by Board to set rates?	Approval of annual budget by Board determines rates.	Analysis of cost & competition; hearings; vote.	
11. What are audit responsibilities of Board	3-man Audit Comittee. Reviews annual audit by public accounting firm & reports to full board.	Policy supervision; no separate audit committee; books certified by Big 8 CPAs.	Appointment of Auditor & nistrative Auditor (RCW 43.52.375 & 43.52.378). Also Internal Auditor reports to Executive Board.

QUESTIONS	Municipal Electric Authority of Georgia MEAG	New York State Power Authority NYSPA	Washington Public Powe Supply Syst WPPSS
12. Is Chief Exec. Officer appointed by Board?			
Yes	X	X	X
No o			
If not, who appoints CEO?		Chairman elected from among Board members.	
13. Is CEO member of Board?			
Yes		X	
No	X		X
If yes, does CEO have vote on Board			
Yes		X	
No			
14. Does statue under which your utility operates specify duties of CEO?			
Yes		X	
No	X		X
If yes, please describe		See By-Laws.	
15. Is there statutory ceiling on compensation paid CEO?			
Yes		X	
No	X		X
If yes, what is ceiling? $ per annum		$59,000	

	Municipal Electric Authority of Georgia	New York State Power Authority	Washington Public Power Supply Syste
QUESTIONS	MEAG	NYSPA	WPPSS
16. Is there statutory ceiling on compensation paid other employees?			
Yes			
No	X	X	X
If yes, what is ceiling?			
$ per annum			
17. Does Board have full authority to fix compensation of employees?			
Yes	X	X	X
No			
18. Any additional comments you wish to make about your organization's structure			16-member Board of Directors also exists, but with very limited responsibility for management & control of

Sup. Sys.

QUESTIONS	LCRA (Lower Colorado River Authority)	Ontario Hydro
Installed capacity (MW)	1,830	28,224
1. No. of members of Board	15	13
2. Geographic representational requirements	2 directors from Travis Co. At least 1 dir. from 10 other counties. One additional dir. from 1 of the 10 statutory counties (excl. Travis). 3 directors-at-large, from counties served with elec. power, other than those included in above 10 county statutory district.	None, but by practice Board members are selected on a geographic basis from within the Province.
3. How members selected		
Elected		
Appointed	X	X
If Appointed, by Whom	Governor, with advice & consent of state senate	Lieutenant Governor, on recommendation of Premier and Cabinet
4. Statutory qualifications of Board members	None eligible who has been employed by any utility, in preceding 3 yrs. - Must be resident of & freehold property taxpayer of county from which appointed - for not less than 2 yrs. preceding appointment.	None
5. Length of term		
Years	6	3 (see Footnote #3)

QUESTIONS	LCRA	Ontario Hydro
6. Is there limittation on # of terms member of Board can serve?		
Yes ---	X	X
No		
If yes, what is limit on # of years?	6 consecutive years	3 (see Footnote #4)
7. Annual compensation of:		
Members of Board	None	$5,000
Chairman of Board	No per diem in excess of 150 days per year. $50 per day paid for each day of Board attendance & for attending to business of district, when authorized by resolution of Bd., plus actual expenses.	N/A
If there is means of compensation other than annual stipend, explain:		Per diem for each meeting
8 Is there limitation on # of days member of Board can serve during a year?		
Yes		
No ---	X	X
If yes, what is this limitation?		
Chairman) Members) Days		
9. Statutory duties of Board	Broad powers to control waters of Colorado River and tributaries within the boundaries of District.	To direct and control the "business and affairs" of the Corporation.

QUESTIONS	LCRA	Ontario Hydro
10. Does Board have ultimate authority to set electric rates?		
Yes ---		X
No ---	X	
If yes, what is procedure used by Board to set rates?		Energy Board holds hearings and makes recommendations on rate changes, but recommendations are not binding.
11. What are audit responsibilities of Board	Audit of books of acct. & financial records has to be completed within 90 days after end of fiscal year.	Board has audit committee which reviews annual audit.
12. Is Chief Exec. Officer appointed by Board?		
Yes ----	X	
No ----		X
If not, who appoints CEO?		
13. Is CEO member of Board?		
Yes ----		X
No	X	
If yes, does CEP have vote on Board		
Yes		
No		
14. Does statute under which your utility operates specify duties of CEO?		
Yes		
No ----	X	X
If yes, please describe		

QUESTIONS	LCRA	Ontario Hydro
15. Is there statutory ceiling on compensation paid CEO?		
Yes		
No ----	X	X
If yes, what is ceiling?		
$ per annum		
16. Is there statutory ceiling on compensation paid other employees?		
Yes		
No ----	X	X
If yes, what is ceiling?		
$ per annum		
17. Does Board have full authority to fix compensation of employees?		
Yes ----	X	X
No		
18. Any additional comments you wish to make about your organization's structure		

QUESTIONS	Salt River Project
Installed capacity (MW)	3,435
1. No. of members of Board	14
2. Geographic representational requirements	10 from districts within boundaries, 4 at large.
3. How members selected	
Elected	X
Appointed	
If Appointed, by whom	
4. Statutory qualifications of Board members	Registered voter and own land within SRP boundaries.
5. Length of term - Years	4
6. Is there limitation on # of terms member of Board can serve?	
Yes	
No ------	X
If yes, what is limit on # of years?	
7. Annual compensation of:	
Members of Board	$50 per meeting
Chairman of Board	$70,000
If there is means of compensation other than annual stipend, explain:	Medical insurance, life insurance, travel mileage
8. Is there limitation on # of days member of Board can serve during a year?	
Yes	
No ----	X

	QUESTIONS	Salt River Project
	If yes, what is this limitation? Chairman) Days Members)	
9.	Statutory duties of Board	Establish policies, approve major contracts and bond issues, hire general manager, set water and power rates
10.	Does Board have ultimate authority to authority to set electric rates?	
	Yes	
	No ------	X
	If yes, what is procedure used by Board to set rates?	Statute requires public meeting and testimony from independent consultant.
11.	What are audit responsibilities of Board	Board has audit committee that meets once a month and can review all purchases, expenditures and expense accounts.
12.	Is Chief Exec. Officer appointed by Board?	
	Yes ------	X
	No	
	If not, who appoints CEO?	
13.	Is CEO member of Board?	
	Yes	
	No --- ..	X
	If yes, does CEO have vote on Board	
	Yes	
	No	

QUESTIONS	Salt River Project
14. Does statute under which your utility operates specify duties of CEO?	
Yes --	X
No	
If yes, please describe	
15. Is there statutory ceiling on compensation paid CEO?	
Yes	
No ---	X
If yes, what is ceiling?	
$ per annum	
16. Is there statutory ceiling on compensation paid other employees?	
Yes	
No ----	X
If yes, what is ceiling?	
$ per annum	
17. Does Board have full authority to fix compensation of employees?	
Yes ----	X
No	
18. Any additional comments you wish to make about your organization's structure	

Footnote #1

Selected list includes:

a. to make bylaws for the management and regulation of its affairs

b. to appoint officers, agents, employees, and servants to prescribe their duties and fix their compensation

c. to fix, alter, charge and collect tolls and other charges for the use of Authority facilities and services rendered

d. to borrow money, make and issue negotiable notes, bonds, and other evidence of indebtedness

e. to make contracts of every name and nature and to sue and be sued hereon

f. to have power of eminent domain

g. to mortgage, pledge, or otherwise encumber all or any of the property, real, personal, or mixed, or facilities or revenues of the Authority as security of indebtedness or other obligation of the Authority

h. to do all acts and things necessary or convenient to carry out the powers granted to it by its Charter or any other law.

Footnote #2

a. Direct service customers:

i. Rates are adjusted as necessary to meet revenue requirements.

ii. Based on a future test year for revenue requirements, a cost to serve rate study is made whereby each customers classification contribution to test year cost is determined. Fix-cost allegation is made to residential and commercial classifications by the classifications contributions to the system single annual coincident peaks and to the industrial classification by its contribution to the average of the 12 monthly coincident peaks.

iii. Public meetings are held to inform the customers of the forth coming rate adjustments. Customer input and comments are obtained, then reviewed for consideration by the Board of Directors.

b. REA Cooperatives:

  i. Rate making methodology is based on an agreement negotiated with the Cooperatives and approved by the administration of the REA.
  ii. Rates are recalculated and adjusted each January and July.

  iii. Fixed-cost allocation methodology used is based on the average of the Cooperatives contribution to the systems summer and winter peaks.

Footnote #3

Except for Chairman, who has 5-year term.

Footnote #4

No limit on number of terms Chairman can serve

EXHIBIT C

REPORT ON TVA SALARY CAP BY CARLOS SMITH OF STRANG, FLETCHER, CARRIGER, WALKER, HODGE & SMITH, TO JERRY CAMPBELL, EXECUTIVE DIRECTOR, TENNESSEE VALLEY PUBLIC POWER ASSOCIATION - OCTOBER 24, 1986

I. Federal Statutes with Respect to Compensation of TVA Board and Employees.

I believe you are familiar with the pertinent section of the TVA Act is 16 U.S.C. § 831b which provides, in part:

> The board shall without regard to the provisions of Civil Service laws applicable to officers and employees of the United States, appoint such managers, assistant managers, officers, employees,

> attorneys, and agents, as are necessary for the transaction of its business, fix their compensation, define their duties, and provide a system of organization to fix responsibility and promote efficiency. Any appointee of the board may be removed in the discretion of the board. No regular officer or employee of the Corporation shall receive a salary in excess of that received by the members of the board. (Emphasis supplied)

The compensation of the board chairman and members of the board is not covered within the TVA Act, but rather is established by 5 U.S.C. §§ 5314 and 5315 on "Government Organization and Employees." These Code sections are reproduced in the attached exhibits and with covered positions highlighted in § 5314, which lists numerous public officials including "Chairman, board of directors of the Tennessee Valley Authority"; and in §5315, also listing numerous Presidential appointments, including "Members, board of directors of the Tennessee Valley Authority".

Generally, the provisions of Chapter 51 of Title of the U.S. Code, "Classification" for federal pay and allowances, excludes from that chapter the Tennessee Valley Authority (5 U.S.C. § 5102(G)(ii)).

II. Federal Pay Comparability System.

A "Pay Comparability System" is established as federal policy in 5 U.S.C. § 5301 which provides in part:

> (a) it is the policy of Congress that federal pay fixing for employees under statutory pay systems be based on the principles that --
>
> . . .
>
> (3) Federal pay rates be comparable with private enterprise pay rates for the same levels of work; and . . .

Under § 5301(c), for the purposes of the previously quoted language, a "Statutory Pay System" includes Chapter 73 of Title 38 relating to Department of Medicine and Surgery, Veterans Administration ("V.A."). Acting under this authority, the President in Executive Order 12496, dated December 29, 1984, established a schedule of salaries under 38 U.S.C. § 4103. This schedule establishes that the Chief Medical Director of the Veterans Administration Department of Medicine and Surgery shall be paid $94,375, with the Deputy Chief being paid $90,532 and on down listing the various physicians and dentist positions within the Department.

III. Special Pay for Veterans Administration Physicians.

In addition, 5 U.S.C. § 4118 apparently was enacted as a special provision because the V.A. Department of Medicine and Surgery was having difficultly attracting qualified physicians. This section authorizes payment of an additional sum of not more than $22,500 per annum for physicians, and $10,000 per annum for dentists. Under § 4118(b), the Administrator of V.A. has authority to provide the maximum amount of special pay to the chief medical director and deputy chief medical director, and if this interpretation is correct, and if that authority is fully exercised for compensation above that provided in Executive Order 12496, this would then put the compensation of the chief medical director at $116,875 per year plus other federal benefits such as retirement, annual leave, etc. -- a salary level that might make career nuclear management positions more attractive.

IV. Physician Comparability Allowances.

It is provided in 5 U.S.C. § 5948, in part, as follows:

> (a) Notwithstanding any other provision of law, and in order to recruit and retain highly qualified Government physicians, the head of an agency, subject to the provisions of this section and such regulations as the President or his designee may prescribe, may enter into a service agreement with a Government physician which provides for such physician to complete a specific period of service in such agency for return for an allowance for the duration of such agreement in an amount to be determined by the agency head and specified in the agreement, but not to exceed --
>
> > (1) $7,000 per annum if, at the time the agreement is entered into, the Government physician has served as a Government physician for twenty-four months or less, or
> >
> > (2) $10,000 per annum if the Government physician has served as a Government physician for more than twenty-four months.
>
> . . .
>
> (g) For the purpose of this section --

> (1) "Government physician" means any individual employed as a physician or dentist who is paid under --
>
> . . .
>
> (E) section 3 of the Tennessee Valley Authority Act of 1933 (16 U.S.C. 831b), relating to the Tennessee Valley Authority;
>
> . . .
>
> (i) Any regulations, criteria, or conditions that may be prescribed under this section by the President or his designee shall not be applicable to the Tennessee Valley Authority, and the Tennessee Valley Authority shall have sole responsibility for administering the provisions of this section with respect to Government physicians employed by the Authority. (Emphasis supplied.)

This comparability allowance is apparently the authorization for physicians' salaries in excess of general statutory pay schedules for the federal agencies listed in that section.

V. Special Pay Provisions for Five Hundred Seventeen Scientific and Professional Positions in Federal Agencies.

Under 5 U.S.C. § 3104, it is provided that the director of the Office of Personnel Management may establish not more than 517 scientific or professional positions to carry out research and development and that the head of each federal agency utilizing these individuals shall annually report to Congress the number of positions established, and the name, rate of pay, and description of qualifications. Some of this information can be omitted in the annual report if detrimental to national security. I have not asked for a copy of the last annual report but it should be readily available from the U.S. Office of Personnel Management.

Under 5 U.S.C. § 5303, the President has authority for certain occupations described in the general schedule of pay rates, the Veterans Administration salaries for physicians, dentists and nurses, and officers of the foreign service, to establish higher minimum rates of basic pay for "one or more grades or levels, occupational groups, series, classes, or subdivisions thereof," when he finds "that the pay rates in private enterprise for one or more occupations in one or more areas or locations are so substantially above the pay rates of statutory pay schedules as to handicap significantly the government's recruitment or retention of well-qualified individuals in (those) positions. . ." (Emphasis supplied.)

VI. Advisory Committee on Federal Pay.

In 5 U.S.C. § 5306, there is established an "Advisory Committee on Federal Pay" composec of three members not otherwise employed in the government of the United States, appointed by the President. This advisory committee prepares an annual report to the President with recommendations and findings with respect to the pay of government employees. I have never seen a copy of their annual report, but I suspect it is readily available upon request.

EXHIBIT D

PRESENT AND PROPOSED FEDERAL SALARY LEVELS

	Salaries as of Jan. 5, 1987	Proposed by Quadrennial Comm.	Proposed by President Reagan***
Level I	$88,800	$160,000	$99,500
Level II	77,400	135,000	89,500
Level III*	75,800	130,000	82,500
Level IV**	74,500	120,000	77,500
Level V	70,800	110,000	72,500

* Present salary level of TVA Chairman

** Present salary level of TVA Board members, and present ceiling on TVA staff salaries.

*** Will become effective February 5, 1987 unless rejected before that date by both Houses of the Congress, and the Present concurs in this Congressional action.

ADDITIONS TO THE RECORD

STATEMENT OF HON RICHARD C. SHELBY, UNITED STATES SENATOR FROM ALABAMA

MR. CHAIRMAN, I WOULD LIKE TO THANK YOU FOR THE OPPORTUNITY TO EXPRESS SOME OF MY CONCERNS AND HOPES FOR THE TENNESSEE VALLEY AUTHORITY (TVA). AS A MEMBER OF THE TVA DELEGATION, I HAVE AN AVID AND GENUINE INTEREST IN THE FUTURE COURSE AND STABILITY OF THE ORGANIZATION. MOREOVER, I AM STRONGLY DEDICATED AND MOTIVATED TO ASSISTING THE TVA IN FULFILLING ITS COMMITMENT TO THE MANY PERSONS SERVED BY THE ORGANIZATION.

THE TVA HAS AN IMPRESSIVE HISTORY. IT HAS BEEN PRAISED AS THE "GREATEST SINGLE AMERICAN INVENTION OF THIS CENTURY." REPRESENTATIVE LISTER HILL OF MY STATE OF ALABAMA, AMONG OTHER FORWARD-THINKING INDIVIDUALS OF THAT TIME, WORKED TOWARD THE CREATION OF A DEVELOPMENT CORPORATION THAT WOULD HARNESS THE ENERGY OF THE TENNESSEE RIVER AND PROVIDE THE STIMULATION NECESSARY FOR GROWTH AND PROSPERITY. 1933 MARKS THE MANIFESTATION OF AN IDEA THAT HAS BENEFITED THOUSANDS OF

FAMILIES RESIDING WITHIN THE TVA AREA. AS A CITIZEN OF THE TVA AREA, I AM COMMITTED TO THE TVA CONCEPT AND AM WILLING TO WORK TOWARD FRUITION OF THE GOALS I KNOW TVA IS CAPABLE OF ACHIEVING.

WITH GREAT INTEREST I READ THE REPORT PREPARED BY THE ADVISORY COMMITTEE ON THE TENNESSEE VALLEY AUTHORITY UNDER THE AUSPICES OF THE SOUTHERN STATES ENERGY BOARD (SSEB). ADDITIONALLY, I HAVE READ THE "OPTIONS PAPER ON TVA'S STRUCTURE AND ORGANIZATION" PREPARED BY MR. WILLIAM F. WILLIS, GENERAL MANAGER OF TVA. FURTHERMORE, I HAVE TALKED WITH MY CONSTITUENTS WHO ARE DIRECTLY AFFECTED BY ACTIONS TAKEN BY THE TVA. THEY ARE CONCERNED WITH SOME OF THE RECENT ACTIONS OF THE TVA. MANY ARE SMALL FARMERS WHO ARE FEARFUL OF RESULTANT ECONOMIC DAMAGE BECAUSE OF THOSE ACTIONS. THEIR CONCERNS MUST BE ADDRESSED.

I THINK IT IS SAFE TO ARGUE THAT MANY OF THE PROBLEMS THAT THE TVA IS EXPERIENCING HAS BEEN PRECIPITATED BY CURRENT STRUCTURAL FLAWS IN MANAGEMENT. THIS IS EVIDENCED NOT ONLY BY THE SSEB REPORT, BUT ALSO BY THE TVA'S "OPTION PAPER." ONE OF THE FLAWS SPECIFIED IN THE SSEB REPORT IS THAT THE PRESENT LEADERSHIP STRUCTURE "FOSTERS INSULARITY AND LIMITED EXPOSURE TO EXTERNAL VIEWPOINTS." THE "OPTIONS PAPER" STATES IN PART THAT:

"THE FACT OF FIVE LICENSED GENERATING UNITS SHUT DOWN IN 1985 BECAUSE OF VARIOUS SAFETY AND MANAGEMENT DEFICIENCIES DIRECTLY AFFECTS THE FINANCIAL HEALTH OF TVA'S ELECTRIC SYSTEM, THE COMPETITIVENESS OF TVA'S RATES, THE ADEQUACY OF TVA'S POWER

SUPPLY, AND, OF GREAT IMPORTANCE, TVA'S PREVIOUS REPUTATION AS AN INDUSTRY LEADER IN THE CONSTRUCTION AND OPERATION OF NUCLEAR GENERATING STATIONS."

UNFORTUNATELY, THE DEFICIENCIES WITHIN MANAGEMENT IS THE TREE FROM WHICH PROBLEMS WITH NUCLEAR SAFETY AND FINANCIAL PLANNING STEM. ADDITIONALLY, THERE IS DIFFICULTY WITH ATTRACTING AND KEEPING TOP QUALITY STAFF AT CERTAIN LEVELS. THIS HANDICAP COUPLED WITH THE "FRUIT OF THE POISONOUS TREE" LEADS TO INEFFECTIVE OPERATIONS AND PLACES AN INCREASED BURDEN ON THE CITIZENS OF THE TVA AREA.

HOWEVER, I THINK IT IS IMPORTANT TO NOTE THAT TVA IS WORKING TOWARD REMOVING SOME OF THE OBSTACLES IT IS FACING. THIS IS DEFINITELY A STEP IN THE RIGHT DIRECTION. THE MANAGEMENT MUST BE COMMENDED. HOPEFULLY THESE STEPS WILL CONTINUE AND THE TVA WILL AGAIN BE IN THE FORE OF ELECTRIC UTILITIES AND A ROLE MODEL ALL OVER THE WORLD.

BECAUSE I AM GENUINELY INTERESTED IN THE WELL-BEING AND VIABILITY OF THE TENNESSEE VALLEY AUTHORITY, I HAVE INTRODUCED LEGISLATION TO REMEDY THE MAJOR PROBLEM FACING THE ORGANIZATION. STUDY AFTER STUDY OF THE TVA HAS INDICATED THAT SOONER OR LATER THE TVA'S MANAGEMENT STRUCTURE MUST BE CHANGED IF TVA IS TO PROGRESS INTO THE FUTURE. THEREFORE, ON MAY 28, 1987, I INTRODUCED LEGISLATION, S. 1286, TO AMEND THE TENNESSEE VALLEY AUTHORITY ACT OF 1933 AND THE INSPECTOR GENERAL ACT OF 1978. I, AND SEVERAL COLLEAGUES IN THE HOUSE WHO HAVE INTRODUCED SIMILAR LEGISLATION, BELIEVE THAT THE PROPOSED LEGISLATION (S. 1286) CAN BE THE VEHICLE TO INSURE CONTINUED PROSPERITY. IN FACT, THE SSEB REPORT ADOPTED SOME OF THE CONCEPTS ARTICULATED IN THE PROPOSED LEGISLATION AS HAS THE TVA.

IN THEORY AND PRINCIPLE, I BELIEVE THIS BILL COULD BE OF TREMENDOUS VALUE TO THE TVA AND THE PERSONS SERVED. IT IS MY FIRM BELIEF THAT THE BULK OF THE PROBLEMS THAT TVA FACE STEM DIRECTLY FROM MANAGEMENT DEFICIENCIES AND THAT THOSE DEFICIENCIES ARE THE DIRECT RESULT OF STRUCTURAL FLAWS IN THE LAW THAT GOVERNS TVA'S ORGANIZATION. IT IS TIME TO CHANGE THE LAW AND INFUSE TVA WITH A MODERN, CORPORATE STRUCTURE NECESSARY FOR FUTURE SUCCESS. BY SEPARATING THE TVA POLICY-MAKING ROLE FROM TVA MANAGEMENT, IT IS REASONABLY FORESEEABLE THAT THE EXISTING DEFICIENCIES CAN BE MINIMIZED TIMELY AND EFFICIENTLY.

HOWEVER, PRACTICAL REALITY MAY DICTATE THAT WE DO NOT ASSIST THE PERSONS SERVED BY TVA. I UNDERSTAND THERE ARE SOME WHO OPPOSE THE TVA AND IF GIVEN THE OPPORTUNITY WOULD ELIMINATE THE ORGANIZATION AS IT NOW EXISTS. OPENING THE CHARTER, THE ARGUMENT GOES, WOULD ALLOW THAT OPPORTUNITY.

THUS, FRIENDS OF THE TENNESSEE VALLEY AUTHORITY, WE ARE PLACED IN A MOST PERPLEXING QUAGMIRE. THERE IS GENERAL AGREEMENT THAT THE ORGANIZATION IS IN NEED OF REPAIR. FURTHERMORE, THERE IS GENERAL CONSENT AS TO THE APPROPRIATE WAY

TO ADDRESS THE EXISTING PROBLEMS. SOME CHANGES MAY BE MADE INTERNALLY. HOWEVER, AT THE CONGRESSIONAL LEVEL, WE ARE LIMITED IN OUR ACTION BY A PERCEIVED AND ACTUAL THREAT TO THE ORGANIZATION. BY ATTEMPTING TO HELP THE ORGANIZATION, WE MAY INADVERTENTLY KILL THE ORGANIZATION.

THEREFORE, I SUBMIT TO YOU, THAT WE ARE IN NEED OF A STRONG BI-PARTISAN FRONT, REPRESENTING BOTH HOUSES OF CONGRESS, IN ORDER TO PRESERVE AND ENHANCE THE TENNESSEE VALLEY AUTHORITY. WE MUST WORK TOGETHER TO HELP THE CITIZENS OF THE TVA AREA WHO RELY, IN A REAL SENSE, ON THE TVA FOR THEIR LIVELIHOOD. FURTHER, WE MUST REMEMBER THAT THE UNDERLYING PREMISE OF THE TENNESSEE VALLEY AUTHORITY, AS EXPRESSED IN THE TVA ACT OF 1933, IS TO PROMOTE THE "ECONOMIC AND SOCIAL WELL-BEING" OF THE TENNESSEE VALLEY REGION.

MR. CHAIRMAN, I HOPE WE WILL BE SUCCESSFUL IN OUR ENDEAVOR. I MUST REITERATE THAT I AM WILLING TO WORK TO HELP THE TVA AND THE CITIZENS WHO RESIDE IN THE TVA AREA.

MR. CHAIRMAN, I WOULD LIKE TO THANK THE CHAIR FOR ALLOWING ME THE OPPORTUNITY TO VOICE MY COMMENTS AS TO THE CURRENT PICTURE OF THE TENNESSEE VALLEY AUTHORITY.

[illegible]
[illegible]
12/8/87

FEDERAL EXPRESS

Frederick W. Smith
Chairman and
Chief Executive Officer

2005 Corporate Avenue
Memphis, TN 38132
901 395-3377
U.S. Mail Box 727
Memphis, TN 38194-1841

December 7, 1987

Mr. Henry Nowak
Chairman, Sub-Committee on Water Resource
B376 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Nowak:

Congressman Flippo and Congressman Sunquist requested that I appear at the hearing this week to testify on behalf of the Board's Advisory Committee on the Tennessee Valley Authority. It was my honor to serve as a member of this Advisory Committee and to chair the subcommittee which studied the organization and management of TVA. However, a long standing commitment in Europe will prevent my participation in the hearing. I would, however, like to add the following remarks to those you will find in our report, TVA: A Path To Recovery.

As someone with a great commitment to the Tennessee Valley region and its future, I believe the report, TVA: A Path To Recovery, is critical for a number of reasons. First, the Tennessee Valley Authority is the single source of electricity for residential and commercial customers in our region. Its history as an institution and as a major utility speaks for itself and argues for its prominence in the years ahead. Second, the vitality of the Tennessee Valley Authority is essential to maintaining the industry already located in the Tennessee Valley region, industry which provides services and employment to vast numbers of the citizens of Tennessee. Finally, I am concerned that limitations in the ability of the Tennessee Valley Authority to serve as a reliable and affordable energy source may make Tennessee less competitive in attracting further industrial development.

As a corporate manager and as the Chairman of the SSEB Advisory Committee's subcommittee on the organization and management of TVA I must tell you: TVA has problems. Moreover, the problems TVA currently faces are primarily the result of an archaic organizational structure, which can only be remedied by Congressional action. Many of the features of this structure have been previously identified by Alex Radin and by Coopers and Lybrand in separate studies. Both suggest the following major problems with the structure of TVA:

- A Board of Directors which must perform the strategic, policy making role performed by most Boards while at the same time functioning as the organization's Chief Executive;

- Statutory compensation caps for senior officials which preclude attracting and retaining the talent necessary to manage a utility of this size and scope;
- Lack of market discipline resulting from TVA's ability to write a "blank check" on the Federal Financing Bank for capital that carries a U.S. government guarantee;

- An organizational structure based on functional (e.g. engineering, construction) versus technology (conventional power, nuclear power) lines; and

- Diversion of management efforts on missions grown obsolete over time and better performed by other agencies.

Although some of these problems have been addressed to the extent possible under TVA's structure, the major problems are systemic.

The report which you have before you makes the following recommendations to address these concerns: 1) replacing the three member full-time Board with a nine member part-time Board, making clear the difference between policy making and day-to-day operations which should be the responsiblity of a Chief Executive Officer; 2) creating positions for senior staff who would be responsible for developing long-range plans for capital construction, rate and demand forecasts, and plans for adequate financial management; 3) eliminating the statutory pay cap on salaries for TVA staff; and 4) establishing accountability measures that will restore credibility to the operations of the TVA through formal rate review processes, standard and routine audit procedures, annual Board reviews of construction and operations plans, and production of an annual business plan.

The advice and counsel provided by this Advisory Committee in these recommendations is the kind of critical, management analysis that TVA needs, and it is exactly this kind of analysis which makes sense to the public and which should contribute to your deliberations for the best course of action on behalf of TVA.

Mr. Henry Nowak
Page 3

In summary, I believe this report provides forward-looking and constructive recommendations for assuring the potential of TVA well into the future. I support these recommendations and encourage you to consider taking action which will put these recommendations in place. Only your action to make appropriate changes in the TVA Act can guarantee the vitality of this outstanding and vital national institution so important to the citizens of our area..

Sincerely,

FWS:mm
91336

cc: Congressman Don Sunquist
Congressman Ronnie G. Flippo

VIA FEDEX OVERNIGHT LETTER